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MONTANA TAX STUDY

PART THREE

HISTORICAL PATTERN OF STATE REVENUE IN MONTANA AND THE UNITED STATES SINCE 1947

by

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A staff paper submitted through the Tax Study Task Force to the Montana Legislative Council Subcommittee on Taxation.

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Part 3

SECTION A--TRENDS IN MONTANA REVENUE COLLECTIONS, COMPARISONS WITH OTHER STATES

by Layton S. Thompson

We can move with a little more assurance into the future if we have a reasonable understanding of where we now are, and we can better understand where we now are and what the trends are if we review where we have been and ponder a little on how we arrived at this point.

It will be helpful to recognize the important influence of environment on the development of tax structures and other institutional patterns. An important part of the environment which influences tax structure in one state is what the other states are doing. This involves not only a strong tendency toward uniformity of approach among states, as a matter of following the lines of least resistance or as protection against some risks involved in being different, but also some tendency toward being different in hopes of reaping some competitive advantage from the difference.[1] One thing seems certain, that no state wishes to fall far behind the others in the quantity and quality of such public services as schools and highways.

In this section comparisons will be made between (a) Montana tax revenues in 1963-64 and Montana tax revenue in earlier years and (b) between Montana tax revenues and tax revenues in other states. Such comparisons have their uses to the extent that they can be interpreted and to the extent that the difficulties of interpretation are understood.[2]

Data are available in such a way that it is possible to treat state and local revenues separately. Very little is to be gained, however, from such an approach and there is much to lose. The property tax used primarily for financing local services, is so predominant in Montana's tax structure that in the minds of many citizens the heavy dependence on this one source is one (if not the) major tax problem. Moreover, comparisons among states based on state taxes only have little meaning because of differences between states in the amount of tax revenue collected at the state level and used to support services at the local level.[3] In Section A of this chapter, for the most part, state and local revenues are treated as parts of the Montana tax system and comparisons with other states are made on the same basis.

General Revenue of Governments

Some terminology and classifications used by the Bureau of the Census, U.S. Department of Commerce, in its reports on government finance have become so well recognized that they enhance our understanding of the subject. Furthermore, the

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1. An example would be a special tax rate for new business firms as an incentive for them to locate in the state.

2. For a good brief treatment of the limitations of interstate tax comparisons see Property Taxation in Montana, Montana Legislative Council Report No. 6, Dec., 1960, pp. XVII to XXI.

3. Ibid., p. XIX.

Bureau of the Census is the chief source of data for the comparisons we wish to make.

General revenue is the term used to designate all those revenues available to governments at the various levels (federal, state or local) excepting such items as gross sales revenue of state liquor stores, contributions and investment earnings of insurance trust systems (employee retirement funds. workmens compensation, etc.) and revenues from publicly owned utilities (such as city water supply systems).[4]

General revenue is divided into three classes: taxes, charges and other miscellaneous revenue, and intergovernmental revenue. General revenue of Montana state and local governments amounted to $302.4 million in the fiscal year 1963-64 (Table 1). This consisted of $181.1 million from taxes,[5] $47.8 million from charges and other miscellaneous revenue, and $73.5 million from the federal government.

TABLE 1

GENERAL REVENUE OF MONTANA STATE AND LOCAL GOVERNMENTS BY SOURCE AND BY LEVEL OF GOVERNMENT, 1963-1964*

Source	(Millions of dollars) State	Local	Total
Taxes	75.9	105.2	181.1
Charges and other miscellaneous revenue[a]	24.5	23.3	47.8
State-local and local-state	2.0	25.4	(----)[b]
Federal government	70.0	3.5	73.5
Total	172.4	157.4	302.4[b]

*Source: Government Finances in 1963-64, U. S. Department of Commerce, Bureau of the Census, Series G-GF64-No. 1, p. 32.

[a]Would include such items as educational fees, charges for school lunches. city. county or state hospitals, sewage and sanitation and parking, and interest and income from school lands.

[b]Duplicate transactions between levels of government are excluded.

4. "Total revenue" is defined as general revenue plus the exceptions listed.

5. This figure does not check exactly with the total tax figure for 1964 in Table 6 because property tax levies for hail insurance and irrigation and drainage districts were omitted from the total property tax in Table 6. and automobile license fees added to motor vehicle taxes.

The same information for each of the fifty states and the total for all fifty states is given in Table 2. In Montana, 24 percent of total general revenue is in the form of "grants-in-aid" from the federal government.[6] 60 percent comes from taxes and 16 percent from charges and other miscellaneous revenue. For all fifty states, 70 percent of general revenue comes from taxes and about 15 percent each from charges-and-miscellaneous and from federal grants-in-aid. Montana compares almost exactly with the national average with respect to reliance on charges and miscellaneous revenues as a source of revenue but is high with respect to the percentage obtained as federal grants-in-aid and low with respect to percentage obtained from taxes.

Some interesting patterns can be seen in these data. Montana ranks number seven from the top in the percentage of general revenue obtained from the federal government, exceeded only by Alaska, Wyoming, Arkansas, Utah, Alabama, and Oklahoma. (See Table 2.) Of the fifteeen states which received more than 20 percent of general revenue from this source, eleven are the more thinly settled states of the Great Plains and Rocky Mountain areas (Wyoming, Utah, Montana, Oklahoma, Nevada, New Mexico, South Dakota, Oregon, and North Dakota) and Alaska and Hawaii. Five are from the deep south. The average percentage received by the ten western states used for charts in Part B of this chapter was 21.1.

If you put the federal government grant-in-aid funds on a per capita basis, Montana ranks fourth from the top ($104.24), exceeded only by Alaska ($365.54), Wyoming ($187.27), and Nevada ($127.79). New Mexico ranks fifth ($101.92). The U. S. average was $52.27 in 1963-64.[7]

The least dependence (percentagewise) on federal grants-in-aid was in New York followed by New Jersey, Wisconsin, Indiana and Maryland. (Table 2.)

That part of general revenue obtained from charges and miscellaneous sources is to be treated in Part Seven of this report. We turn now to revenue from taxation which is the dominant subject matter of the Montana Tax Study.

State and Local Tax Revenue

In the twenty-four year period from 1940 to 1963-64, Montana state and local tax revenue increased from $35 million to $179 million (see Table 6). In other words, revenues in 1964 were five times as great as they were immediately preceding World War II. During the same period total personal income in Montana increased from $318 million to $1,587 million or almost exactly five times as great in 1962-63 as it was preceding World War II. (See Table 3.)

State and local tax revenue of all states in 1940 amounted to $7.8 billion.[8]

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6. This does not include direct expenditures of the federal government in the states, such as military bases, reclamation and flood control, veterans hospitals, postal service, and the farm program.

7. Government Finances in 1963-64, U. S. Dept. of Commerce, Bureau of the Census, Series G-GF64-No. 1, p. 45.

8. Historical Statistics in Governmental Finances and Employment, Bureau of the Census, U. S. Department of Commerce, Census of Governments, 1962, Vol. VI (Topical Studies) No. 4, p. 40 (Table 4).

TABLE 2

GENERAL REVENUE OF STATE AND LOCAL GOVERNMENTS BY SOURCE, 1963-64, FIFTY STATES (MILLIONS OF DOLLARS)

State	Total General Revenue	From Federal Government		From Taxes		Charges and Miscellaneous	
		Amount	Percent	Amount	Percent	Amount	Percent
Alabama	904.3	214.0	24.7	532.3	58.9	158.0	17.4
Alaska	180.4	91.4	50.7	56.9	31.5	32.1	17.8
ARIZONA	592.0	95.0	16.1	401.2	67.8	95.8	16.1
Arkansas	501.8	137.7	27.4	293.0	58.4	71.0	14.2
California	8,928.8	1,257.3	14.1	6,312.2	70.7	1,359.4	15.2
COLORADO	801.5	136.4	17.0	535.0	66.8	130.1	16.2
Connecticut	1,017.8	133.5	13.1	754.8	74.2	129.6	12.7
Delaware	199.3	25.7	12.9	128.3	64.4	45.4	22.7
Florida	1,869.8	250.6	13.4	1,258.3	67.3	360.9	19.3
Georgia	1,188.6	234.3	19.7	745.9	62.8	208.4	17.5
Hawaii	314.4	64.4	20.5	190.7	60.6	59.3	18.9
IDAHO	239.1	45.3	19.0	153.9	64.4	39.8	16.6
Illinois	3,575.6	437.3	12.2	2,691.6	75.3	446.7	12.5
Indiana	1,597.1	170.0	10.6	1,152.8	72.2	274.3	17.2
Iowa	1,002.7	133.6	13.3	715.1	71.3	154.0	15.4
Kansas	820.7	113.6	13.8	582.4	71.0	124.7	15.2
Kentucky	860.8	204.6	23.7	517.0	60.1	139.3	16.2
Louisiana	1,251.8	277.8	22.2	723.5	57.8	250.5	20.0
Maine	299.9	52.0	17.3	213.8	71.3	34.1	11.4
Maryland	1,136.1	129.4	11.4	828.2	72.9	178.5	15.7
Massachusetts	1,958.9	244.0	12.4	1,511.6	77.2	203.3	10.4
Michigan	3,125.2	404.3	12.9	2,222.0	71.1	498.9	16.0
Minnesota	1,425.8	194.6	13.6	992.4	69.6	238.8	16.8
Mississippi	588.9	127.8	21.7	356.3	60.5	104.8	17.8
Missouri	1,354.9	244.4	18.0	922.0	68.1	188.5	13.9
MONTANA	302.4	73.5	24.3	181.1	59.9	47.8	15.8
Nebraska	488.0	79.9	16.4	317.3	65.0	90.8	18.6
NEVADA	218.0	52.1	23.9	128.5	59.1	37.3	17.1
N. Hampshire	196.5	35.6	18.1	135.5	69.0	25.4	12.9
New Jersey	2,179.3	186.5	8.6	1,690.8	77.6	302.1	13.8
NEW MEXICO	429.2	102.7	23.9	227.4	52.9	99.1	23.1
New York	8,095.5	650.4	8.0	6,296.5	77.8	1,148.6	14.2
N. Carolina	1,233.4	187.5	15.2	851.7	69.1	194.1	15.7
N. DAKOTA	272.9	55.3	20.3	153.1	56.1	64.6	23.6
Ohio	3,181.8	439.5	13.8	2,208.4	69.4	534.0	16.8
Oklahoma	869.7	213.4	24.5	499.3	57.4	156.9	18.1
Oregon	800.0	171.7	21.5	488.3	61.0	140.0	17.5
Pennsylvania	3,521.5	439.3	12.5	2,581.0	73.3	501.2	14.2
Rhode Island	289.0	48.6	16.8	213.0	73.7	27.3	9.5
S. Carolina	568.1	93.4	16.4	371.9	65.5	102.8	18.1
S. DAKOTA	267.0	61.2	22.9	162.0	60.7	43.9	16.4
Tennessee	1,011.0	216.3	21.4	641.8	63.5	152.9	15.1
Texas	3,144.4	504.8	16.1	2,064.3	65.6	575.3	18.3
UTAH	380.2	94.6	24.9	235.6	61.9	50.1	13.2

TABLE 2--Continued

State	Total General Revenue	From Federal Government Amount	From Federal Government Percent	From Taxes Amount	From Taxes Percent	Charges and Miscellaneous Amount	Charges and Miscellaneous Percent
Vermont	150.0	36.2	24.1	99.1	66.1	14.7	9.8
Virginia	1,175.7	207.2	17.6	763.3	64.9	205.2	17.5
Washington	1,285.0	203.7	15.8	827.2	64.4	254.1	19.8
W. Virginia	509.3	98.3	19.3	336.3	66.0	74.7	14.7
Wisconsin	1,591.3	167.5	10.5	1,212.4	76.2	211.4	13.3
WYOMING	191.4	64.2	33.5	91.3	47.7	35.9	18.8
All 50 states	68,442.5	10,002.4	14.6	47,784.8	69.8	10,655.3	15.6

By 1963-64 this had increased to $47.8 billion.[9] State and local taxes in all states were 6.1 times as high in 1963-64 as in 1940. Total personal income in the U. S. increased from $78.5 billion in 1940 to $491 billion, so U. S. personal income was 6.3 times as great in 1963-64 as in 1940 (see Table 3).

Because state-and-local taxes and personal income have changed at almost exactly the same rate during the 44-year period, state and local taxes as a percent of personal income have changed very little either at the Montana level or for all the states. This was running at a little above 11 percent in Montana in both 1940 and 1963-64 and at approximately 10 percent for all states in 1940 and 1963-64. (Table 4)

Table 4 allows the reader to make significant comparisons between the various states. Obviously, comparisons of total taxes between states have little meaning because they tell us nothing of the tax base (income) and revenue needs (related to population). The two common adjustments made for purposes of interstate comparisons is to calculate the tax per capita and as a percent of personal income (Table 4). Comparisons made on the basis of these measures are useful to the extent that they can be interpreted.[10]

If a state ranks high in per capita tax revenue it might mean any one of, or some combination of, the following:

1. The state might be very wealthy in terms of resources per capita, hence able to provide more and better public services.

2. The citizens of the state may set a high value on public services, such as schools and roads.

3. Public offices may be so poorly organized and public employees so inefficient that public services cost more than they should. (More than in

9. Governmental Finances, 1963-64, Bureau of the Census, U. S. Department of Commerce, Series G-GF64-No. 1, p. 31, (Table 16).

10. Montana Legislative Council, op. cit., pp. XIX-XX.

TABLE 3

TOTAL AND PER CAPITA PERSONAL INCOME IN MONTANA
AND IN THE UNITED STATES 1929 TO 1964*

	Montana		United States	
Year	Total Personal Income (000 dollars)	Per Capita (dollars)	Total Personal Income (000 dollars)	Per Capita (dollars)
1929	312	595	85,661	703
1933 (Low)	162	299	47,122	375
1940	318	570	78,522	595
1941	388	715	95,953	719
1942	467	896	122,417	909
1943	545	1,128	148,409	1,102
1944	550	1,168	160,118	1,194
1945	568	1,191	164,549	1,234
1946	657	1,278	175,701	1,249
1947	772	1,457	189,077	1.316
1948	866	1,598	207,417	1,420
1949	791	1,390	205,452	1,382
1950	957	1,614	225,473	1,485
1951	1,050	1,762	252,960	1,650
1952	1,066	1,771	269,050	1,728
1953	1,093	1,774	283,140	1,789
1954	1,071	1,716	285,339	1,771
1955	1,158	1,821	306,598	1,866
1956	1,229	1,873	330,380	1,975
1957	1,280	1,919	348,724	2,047
1958	1,338	2,009	357,498	2,063
1959	1,328	1,985	381,326	2,163
1960	1,363	2,007	399,028	2,217
1961	1,345	1,935	415,182	2,268
1962	1,558	2,238	439,977	2,367
1963	1,553	2,215	461,670	2,448
1964	1,587	2,252	491,004	2,566

*Source: Survey of Current Business, Office of Business Economics, U. S. Department of Commerce, July, 1965, and previous issues.

comparable states.)

4. Economic, geographic or climatic factors may cause the cost per capita of public services to be high, e.g., cost of education and highways per person in thinly settled areas.

5. The dense populations in metropolitan areas require heavy expenditures for sanitation, police protection, and the like.

Likewise a high tax per $1,000 personal income might result from numbers 2. 3, 4 and 5 above and also from low incomes per capita. Other factors must be

taken into consideration, such as the age composition of the population, the distribution of income among the taxpayers, the kinds of taxes used in each state (including the possibilities of tax shifting) the amount of general revenues furnished by grants-in-aid, and amounts of revenues received from charges and miscellaneous sources.[11]

State and local taxes in Montana in 1963-64 amounted to $256.88 per capita, or $7.21 greater than the average per capita tax for all the states (Table 4). Sixteen states had higher per capita tax revenues than Montana and these 16 states plus Montana make up the one-third of the states with the highest per capita state and local taxes (Table 5). Based on the qualifying factors discussed in the previous two paragraphs, some statements can be made. Twelve of the 17 states in the upper one-third group have per capita incomes greater than the national average including the five highest ranking income states (1963) of Nevada, Delaware, Connecticut, New York, and California. Thirteen of the upper 17 committed a greater percent of their personal income for taxes than the national average. One explanation of this relationship is that people in higher income brackets can divert a greater part of their incomes to discretionary expenditures (i.e., expenditures for other than the basic necessities of life).

On the other hand, of the one-third of the states with lowest per capita taxes, all but one (Missouri) have per capita incomes lower than the national average. This group includes the very-low-income states of the Deep South. All but three of this group committed a smaller percent of their personal income for taxes than the national average. It amounts to a greater sacrifice for a citizen with an annual income of $1,390 (Mississippi) to pay 10 percent of his income for public services than for a citizen with an annual income of $3,298 (Delaware) to pay 10 percent.[12]

The high per capita tax states include some with large metropolitan populations such as New York, California, Massachusetts and Michigan. Montana, Nevada and Wyoming fit into that class of states whose per capita costs are high partly because of problems of space. Taxes per capita are high even though large amounts of their general revenue are in the form of federal grants-in-aid. Alaska's, on the other hand, falls well below the average in per capita taxes because more than one-half of her general revenue was obtained from the federal government. Montana ranked number nine in 1963-64 in the percentage of personal incomes committed to state and local taxes. Two of the most obvious reasons for this are (a) that per capita income is well below the national average and (b) that many public services are costly per capita because of the problems of space (sparse population).

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11. Differences in taxes per capita and in taxes as a percentage of income are found between cities and towns, counties and school districts within each state, for the same kinds of reasons that differences are found between states.

12. It is not always clear what the cause and effect relationships are. It is true that citizens may feel that they are poor because they pay taxes. It is true, also, that some people are poor because they have little or no amounts of such public services as schools and roads.

TABLE 4

STATE AND IOCAL TAXES, FIFTY STATES, PER CAPITA AND AS A PERCENT OF PERSONAI INCOME, 1963-1964, ALSO PROPERTY TAX AS A PERCENT OF ALL TAXES*

State	1964 Population (000)	1963 Personal Income Amount (000,000)	1963 Personal Income Per Capita	State & Local Taxes State (000,000)	State & Local Taxes Local (000,000)	State & Local Taxes Total (000,000)	State & Local Taxes Per Capita	State & Local Taxes Percent of 1963 Personal Income (%)	Property Tax Amount (000,000)	Property Tax Percent of Total Taxes (%)
Alabama	3,407	5,538	1,655	384.1	148.2	523.3	156.24	9.61	98.7	18.54
Alaska	250	704	2,839	39.0	17.8	56.9	227.60	8.08	13.3	23.37
ARIZONA	1,581	3,340	2,142	221.1	180.1	401.2	253.76	12.01	199.9	49.82
Arkansas	1,933	2,986	1,607	203.9	89.1	298.0	151.58	9.81	83.3	28.43
California	18,084	52,317	2,974	2,930.2	3,382.0	6,312.2	349.05	12.06	3,158.8	50.04
COLORADO	1,966	4,831	2,464	247.1	287.9	535.0	272.13	11.07	268.4	50.16
Connecticut	2,766	8,490	3,185	359.4	395.4	754.8	272.89	8.89	392.5	52.00
Delaware	491	1,570	3,298	100.6	27.7	128.3	261.30	8.17	26.3	20.49
Florida	5,705	11,933	2,111	708.6	549.6	1,258.3	220.56	10.54	480.5	38.18
Georgia	4,294	7,715	1,864	490.9	255.0	745.9	173.71	9.66	229.0	30.70
Hawaii	701	1,667	2,462	142.2	48.5	190.7	272.04	11.43	34.0	17.82
IDAHO	692	1,366	1,916	83.2	70.8	153.9	222.40	11.26	73.4	47.69
Illinois	10,489	30,020	2,948	1,122.3	1,569.3	2,691.6	234.28	8.96	1,396.2	51.87
Indiana	4,825	11,648	2,481	556.9	595.9	1,152.8	238.92	9.89	603.3	52.33
Iowa	2,756	6,399	2,302	311.3	403.8	715.1	259.47	11.17	402.5	56.28
Kansas	2,225	5,017	2,255	248.6	333.8	582.4	261.75	11.60	334.4	57.41
Kentucky	3,159	5,545	1,792	353.5	163.5	517.0	163.66	9.32	150.2	29.05
Louisiana	3,468	6,072	1,776	542.6	180.9	723.5	208.62	11.91	156.4	21.61
Maine	989	1,971	2,007	109.7	104.2	213.8	216.18	10.84	105.7	49.43
Maryland	3,432	9,163	2,786	474.7	353.5	828.2	241.32	9.03	338.2	40.83
Massachusetts	5,338	14,889	2,853	632.0	879.6	1,511.6	283.18	10.15	868.9	57.48
Michigan	8,098	20,624	2,541	1,220.2	1,001.8	2,222.0	274.39	10.77	1,007.4	45.33
Minnesota	3,521	8,152	2,329	479.9	512.4	992.4	281.85	12.17	532.9	52.79
Mississippi	2,314	3,183	1,390	235.3	120.9	356.3	153.98	11.19	102.7	28.82
Missouri	4,409	10,900	2.518	463.7	458.3	922.0	209.18	8.45	387.8	42.06

TABLE 4--Continued

State	1964 Population	1963 Personal Income		State & Local Taxes					Property Tax	
		Amount	Per Capita	State	Local	Total	Per Capita	Percent of 1963 Personal Income	Amount	Percent of Total Taxes
	(000)	(000,000)		(000,000)	(000,000)	(000,000)		(%)	(000,000)	(%)
MONTANA	705	1,553	2,197	75.9	105.2	181.1	256.88	11.56	106.2	58.64
Nebraska	1,480	3,376	2.312	111.2	206.1	317.3	214.39	9.39	226.1	71.25
NEVADA	408	1,246	3,386	73.7	54.8	128.5	314.95	10.31	45.0	35.01
New Hampshire	654	1,450	2,313	50.1	85.4	135.5	207.19	9.34	86.9	64.13
New Jersey	6,682	18,861	2,915	517.2	1,173.6	1,690.8	253.04	8.96	1,076.5	63.66
NEW MEXICO	1,008	1,953	1,918	172.8	54.6	227.4	225.60	11.64	.51.9	22.82
New York	17,915	53,361	3,013	2,712.9	3,583.6	6,296.5	351.47	11.79	2,686.0	42.65
North Carolina	4,852	8,601	1,807	623.8	227.9	851.7	175.54	9.90	235.2	27.61
NORTH DAKOTA	645	1,300	2,050	76.2	76.9	153.1	237.36	11.77	77.0	50.29
Ohio	10,100	25,164	2,474	1,006.9	1,201.4	2,208.4	218.65	8.77	1,133.8	51.34
Oklahoma	2,465	4,858	1,953	332.3	167.1	499.3	202.56	10.27	160.1	32.06
Oregon	1,871	4,568	2,502	255.1	233.2	488.3	260.98	10.68	226.3	46.34
Pennsylvania	11,459	28,017	2,452	1,407.5	1,173.5	2,581.0	225.24	9.21	840.8	32.57
Rhode Island	914	2,153	2,433	109.5	103.5	213.0	233.04	9.89	101.7	47.74
South Carolina	2,555	3,944	1,588	279.5	92.4	371.9	145.56	9.42	86.5	23.25
SOUTH DAKOTA	715	1,390	1,886	64.3	97.7	162.0	226.57	11.65	91.6	56.54
Tennessee	3,798	6,588	1,783	408.2	233.6	641.8	168.98	9.74	208.3	32.45
Texas	10,397	21,351	2,068	1,122.6	941.8	2,064.3	198.54	9.66	923.5	44.73
UTAH	992	2,083	2,119	136.0	99.6	235.6	237.50	11.31	100.2	42.52
Vermont	409	827	2,121	56.3	42.8	99.1	242.30	11.98	42.4	42.78
Virginia	4,378	8,907	2,057	437.7	325.6	763.3	174.35	8.56	273.9	35.88
Washington	2,984	7,575	2,484	561.7	265.5	827.2	277.21	10.92	269.6	32.59
West Virginia	1,797	3,348	1,883	231.3	105.0	336.2	187.09	10.04	93.5	27.81
Wisconsin	4,107	9,617	2,368	711.4	501.0	1,212.4	295.20	12.60	529.1	43.64
WYOMING	343	834	2,475	47.5	43.8	91.3	266.18	10.94	50.5	55.31
Total	190,526[a]	458,965[a]	2,445	24,242.7	23,325.4[a]	47,568.2[a]	249.67[a]	10.36[a]	21,167.3	44.50
10 West. Sts.[b]	9,055	19,896	2,197	1,197.8	1,071.4	2,269.2	250.60	11.41	1,064.1	46.89

TABLE 4--Continued

*Source: Government Finance in 1963-64, Bureau of the Census, U. S. Department of Commerce, Series G-GF64-No.1, pp. 31-39, p. 45 and 50.

[a]Do not include District of Columbia figures.

[b]Ten states used in charts in this study. These states are identified by use of capital letters in their names in Tables 2, 4, and 5. They are Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, North Dakota, South Dakota, Utah and Wyoming.

TABLE 5

FIFTY STATES RANKED IN THE ORDER OF PER CAPITA STATE AND LOCAL TAXES IN 1963-64 AS RELATED TO PERSONAL INCOME

State	Per Capita State and Local Taxes (dollars)	Per Capita Personal Income (dollars)	Tax as a Percent of Personal Income (percent)
		HIGHEST ONE-THIRD	
New York	351.47	3,013	11.79
California	349.05	2,974	12.06
NEVADA	314.95	3,386	10.31
Wisconsin	295.20	2,368	12.60
Massachusetts	283.17	2,853	10.15
Minnesota	281.85	2,329	12.17
Washington	277.21	2,484	10.92
Michigan	274.39	2,541	10.77
Connecticut	272.89	3,185	8.89
COLORADO	272.13	2,464	11.07
Hawaii	272.04	2,462	11.43
WYOMING	266.18	2,475	10.94
Kansas	261.75	2,255	11.60
Delaware	261.30	3,298	8.17
Oregon	260.97	2,502	10.68
Iowa	259.47	2,302	11.17
MONTANA	256.87	2,197	11.66
		MIDDLE ONE-THIRD	
ARIZONA	253.76	2,142	12.01
New Jersey	253.04	2,915	8.96
Vermont	242.30	2,121	11.98
Maryland	241.32	2,786	9.03
Indiana	238.92	2,481	9.89
UTAH	237.50	2,119	11.31
NORTH DAKOTA	237.36	2,050	11.77
Illinois	234.28	2,948	8.96

TABLE 5--Continued

State	Per Capita State and Local Taxes (dollars)	Per Capita Personal Income (dollars)	Tax as a Percent of Personal Income (percent)
Average 50 States	249.67	2,445	10.36
Average 10 Western States	250.60	2,197	11.41
Rhode Island	233.04	2,433	9.89
Alaska	227.60	2,839	8.08
SOUTH DAKOTA	226.57	1,886	11.65
NEW MEXICO	225.60	1,918	11.64
Pennsylvania	225.24	2,452	9.21
IDAHO	222.40	1,916	11.26
Florida	220.56	2,111	10.54
Ohio	218.65	2,474	8.77
		LOWEST ONE-THIRD	
Maine	216.18	2,007	10.84
Nebraska	214.39	2,312	9.39
Missouri	209.18	2,518	8.45
Louisiana	208.62	1,776	11.91
New Hampshire	207.19	2,313	9.34
Oklahoma	202.56	1,953	10.27
Texas	198.54	2,068	9.66
West Virginia	187.09	1,883	10.04
North Carolina	175.54	1,807	9.90
Virginia	174.35	2,057	8.56
Georgia	173.71	1,864	9.66
Tennessee	168.98	1,783	9.74
Kentucky	163.66	1,792	9.32
Alabama	156.24	1,655	9.61
Mississippi	153.98	1,390	11.19
Arkansas	151.58	1,607	9.81
South Carolina	145.56	1,588	9.42

Montana State and Local Tax Revenue Sources

Montana has always depended to a large extent on property taxes as a source of tax revenue. At the present time (1963-64) only three other states (Nebraska, New Hampshire, and New Jersey) obtain a greater percent of state and local tax revenue from the general property tax (Table 4). Starting at a level of about $24 million in 1940 property taxes increased to $106 million in 1964. (Table 6)[13] This was an increase of 342 percent as compared with an increase of 416 percent (from $35 million to $179 million) for all state and local taxes during the same period (Table 6).

Property taxes as a percentage of total taxes have dropped from 68.9 percent in 1940 to about 59 percent in the past few years (Table 7). The decrease in relative importance of property taxes was greater in the 1940's, dropping to 63 percent just after World War II and to 61 percent in 1950. The reader will remember the effort to find new revenues in the 1930's. The personal income tax, liquor and beer excises, a group of business license taxes, motor carrier tax, and an increase in the corporation license tax. During the 1940-1964 period the revenues from these and othersources have increased partly as a result of more prosperous times and partly as a result of increases in rates, especially in personal income tax, corporation license tax and gasoline tax. (See Calendar of Taxation Highlights.)

New sources of revenue include the gross vehicle weight tax and the cigarette tax. Two other taxes were tried--the slot machine license tax and the trade stimulator tax--both of which were ruled unconstitutional by the Supreme Court.

The characteristics of the various taxes and their impact on the economy and the taxpayer will be treated in later chapters. This section will close with a summary of trends in taxable value in the several property tax categories since 1940. There is a substantial variation in the rates of increase in taxable value in the various classes of property. (Table 8) Greatest increases were experienced in farm machinery, motor vehicles, and net proceeds of mines. Much lower increases were experienced in public utilities and farm lands and improvements.

Taxable value of farm property made up 33.4 percent of the total in 1940 and 28.6 percent in 1964.

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13. Levies for hail insurance premiums and irrigation and drainage districts have been omitted. Property taxes in 1940 were actually $5 million lower than they were in 1930, and they dropped even to a somewhat lower level during the World War II years. Property taxes as a percentage of total taxes also had been much higher in earlier years.

TABLE 3

SOURCES OF STATE AND LOCAL TAX REVENUE IN MONTANA, 1940 TO 1964*
(000)

Year	Tax Classification											
	Property Tax[a]	Motor Fuels[b]	Individual Income Tax	Motor Vehicle Taxes[c]	Cigarette Tax	Alcoholic Beverages[d]	Corporation License Tax	Natural Resources[e]	Business Taxes[f]	Insurance Tax	Death and Gift Tax	Total
1964	106,013	20,010	14,691	8,696	6,059	5,174	5,051	4,949	3,582	2,663	2,263	179,151
1962	97,860	18,106	14,209	8,354	6,208	4,991	4,535	4,914	2,952	2,312	2,147	166.588
1960	91,868	16,964	10,707	7,979	5,870	4,815	4,671	4,729	2,621	2,207	1,775	154,206
1958	83,468	16,782	9,300	7,193	5,510	3,293	2,358	4,850	2,416	1,871	1,534	138,575
1956	72,447	17,200	7,557	6,376	2,933	2,776	3,005	3,092	2,220	1,517	1,366	120,489
1954	59,661	13,326	4,923	5,308	2,791	2,790	1,812	2,543	1,823	1,311	1,141	97,429
1952	53,066	10,999	5,325	5,468	2,761	2,852	2,284	2,200	2,380	1,052	752	89,139
1950	45,187	9,847	3,687	4,170	1,341	2,411	1,678	1,997	2,119	853	422	73,712
1948	38,941	7,063	3,075	3,440	1,283	2,630	1,907	1,572	1,940	680	648	63,179
1946	26,831	5,173	1,589	3,189		1,969	766	1,214	860	492	256	42,299
1944	21,635	5,378	1,347	2,601		1,862	1,237	1,282	755	345	1,029	37,471
1942	21,942	5,225	852	1,623		1,429	1,541	1,050	654	361	231	34,908
1940	24,107	5,030	543	1,792		1,315	688	460	521	361	187	35,004

*Sources: Biennial Reports Montana State Board of Equalization and Compendium of State Government Finances (annual publication), Bureau of the Census, U. S. Department of Commerce. Dates on motor vehicle registrations obtained from the Montana Highway Department.

[a]Grand total all property taxes less levies for hail insurance and drainage and irrigation districts.

[b]Gasoline, diesel and liquid petroleum gas taxes.

TABLE 6--Continued

[c]Motor vehicle registrations, drivers licenses, gross vehicle weight tax and miscellaneous taxes collected by the State Highway Commission.

[d]Liquor and beer excises (including 4 percent county and city tax) liquor and beer licenses and liquor purchase permits (does not include profits of state liquor stores).

[e]Severance taxes plus hunting and fishing licenses.

[f]Business taxes--a variety of license fees and license taxes including taxes on chain stores and public utilities.

TABLE 7

PERCENTAGES OF STATE AND LOCAL TAX REVENUES IN MONTANA FROM VARIOUS TAX SOURCES, 1940 TO 1964

Tax Classification	1964	1962	1960	1958	1956	1954	1952	1950	1948	1946	1944	1942	1940
Property Tax[a]	59.2	58.7	59.6	60.2	60.1	61.2	59.5	61.3	61.6	63.4	57.7	62.9	68.9
Motor Fuels[b]	11.2	10.9	11.0	12.1	14.3	13.7	12.3	13.4	11.2	12.2	14.4	15.0	14.4
Individual Income Tax	8.2	8.5	6.9	6.7	6.3	5.1	6.0	5.0	4.9	3.8	3.6	2.4	1.6
Motor Vehicle Taxes[c]	4.9	5.0	5.2	5.2	5.3	5.4	6.1	5.7	5.4	7.5	6.9	4.6	5.1
Cigarette Tax	3.4	3.7	3.8	4.0	2.4	2.9	3.1	1.8	2.0				
Alcoholic Beverages[d]	2.9	3.0	3.1	2.4	2.3	2.9	3.2	3.3	4.2	4.7	5.0	4.1	3.8
Corporation License Tax	2.8	2.7	3.0	1.7	2.5	1.9	2.6	2.3	3.0	1.8	3.3	4.4	2.0
Natural Resources[e]	2.8	2.9	3.1	3.5	2.6	2.6	2.5	2.7	2.5	2.9	3.4	3.0	1.3
Business Taxes[f]	2.0	1.8	1.7	1.7	1.8	1.9	2.7	2.9	3.1	2.0	2.0	1.9	1.5
Insurance Tax	1.5	1.4	1.4	1.4	1.3	1.3	1.2	1.2	1.1	1.1	0.9	1.0	1.0
Death and Gift Tax	1.3	1.3	1.1	1.1	1.1	1.2	0.8	0.6	1.0	0.6	2.7	0.7	0.5

[a]Grand total all property taxes less levies for hail insurance and drainage and irrigation districts.

[b]Gasoline, diesel and liquid petroleum gas taxes.

[c]Motor vehicle registrations, drivers licenses, gross vehicle weight tax and miscellaneous taxes collected by the State Highway Commission.

[d]Liquor and beer excises (including 4 percent county and city tax) liquor and beer licenses and liquor purchase permits (does not include profits of state liquor stores).

[e]Severance taxes plus hunting and fishing licenses.

[f]Business taxes--a variety of licenses, fees and license taxes including taxes on chain stores and public utilities

TABLE 8

CHANGES IN TAXABLE VALUATION OF VARIOUS CLASSES OF PROPERTY, 1940 TO 1964*

Class of Property	Taxable Value 1940 Amount (000)	Taxable Value 1940 Percent	Taxable Value 1964 Amount (000)	Taxable Value 1964 Percent	Taxable Value 1964 as a % of 1940
Farm Machinery	2,489	0.8	17,458	2.3	701.4
Motor Vehicles	7,033	2.2	44,982	5.9	639.5
Net proceeds of mines	7,983	2.5	43.796	5.8	548.6
Industrial sites and imp.	8,591	2.7	25,977	3.4	302.3
Livestock	14,855	4.6	43,045	5.7	289.8
City and town lots and imp.	62,330	19.5	178,245	23.5	285.9
Farm lands and imp.	85,632	26.8	145,476	19.2	169.8
Public utilities	94,406	29.5	140,213	18.5	148.5
All other	36,736	11.4	119,639	15.7	325.7
Total taxable value	320,055	100.0	758.831	100.0	237.1
Total farm share of taxable value[a]	106,754	33.4	216,866	28.6	203.1
Total non-farm share	213,301	66.6	541,965	71.4	254.1

*Source: Biennial Reports of the Montana State Board of Equalization.

[a]The figure for taxable value of farm property includes farm lands and improvements, farm machinery and equipment, livestock, agricultural products, and an estimated share of motor vehicles and household goods.

Part I

SECTION B--TRENDS AND COMPARISONS OF MONTANA STATE TAXES AND REVENUES

by John H. Wicks

Section B of this part relates to the amount of each major type of state tax which has been collected in the years since World War II. It compares the current levels of these taxes to the levels of other states, along with Montana's ranking in total tax collection compared with the ten states in the western region. It briefly contrasts the composition of Montana tax revenues with that of other states.

Figures on tax collections at the state level only, exclusive of local taxation, represent the taxes that are levied and controlled at the state level. Since several governmental activities may be financed at either the state or local level, or both, high or low tax collections at the state level often simply reflect the fact that large or small amounts of state aid are being granted to local governmental units, to supplement small or large tax collections at the local level. Therefore, discussions dealing with state tax collections are supplemented by data showing state and local tax revenues combined.

Part of this analysis uses the years 1947 to 1964 to represent the period since World War II. The year or period of years selected as the base point for trend comparison may affect the trends themselves; that is, any unusual relationship in the base years will be reflected in subsequent comparisons with the year. In this connection, it should be recognized that in the years immediately following World War II, Montana's fiscal position was favored with surplus funds accumulated during the war, resulting partly from reduced needs for certain services and also from the fact that materials and other means of providing certain facilities were not readily available. Revenue collections during this period thus do not necessarily represent a pay-as-you-go level of revenue collections. Other comparisons, including those reflecting taxes per capita and as a percentage of personal income, show trends for the period 1957-1964.

Several measures of taxation are used. When actual dollar tax revenues are adjusted for price level changes, the measure expressed in terms of constant dollars shows the trend of tax collections in terms of purchasing power. It is also useful to measure taxes in relation to state population, or on a per person or per capita basis. By computing tax collections as a percentage of personal income, we are able to show the impact of taxation in relation to personal incomes. None of these measures relate taxation specifically to the number of individuals paying taxes. Therefore, a "per taxpayer" burden of taxation is shown in a few instances, using the number of persons filing state income tax returns as the basis for roughly approximating the number of taxpayers in the state.

It should be noted that the data on tax collections show the amount of taxes collected according to these various measures, but do not determine what the incidence or burden of various taxes may be--that is, who pays them ultimately. Measures which express taxes as a percentage of personal income are affected by changes in the level of personal incomes and vary somewhat from year to year as a result of economic conditions.

AMOUNTS OF MONTANA TAXES

Trends of Montana Tax Collections

Since World War II state tax collections in Montana have increased from about $24 million in 1947 to $76 million in 1964, an increase of 219 percent.[1] However, changes in the total dollars of taxes collected over a period of time take no account of increases in the level of prices or of increases in incomes.

Between 1947 and 1964, the average level of prices paid by consumers--generally called the consumer price index--increased by 38.5 percent. This means that a dollar purchased less, on the average, in 1964 than it did in 1947; a dollar of taxes collected from a person in 1964 reduced his spending power less than a dollar collected in 1947. Thus, the dollar of tax amounted to a smaller burden in terms of loss of purchasing power. An appropriate way to take account of this reduction is to express taxes in terms of dollars of constant purchasing power, or adjusted for price changes. Currently, it is common to express taxes in dollars of the purchasing power which prevailed in the 1957-59 period--that is, in terms of 1957-59 dollars. Such an expression allows direct comparison of the amount of purchasing power given up in taxes by consumers in different years. Expressed in terms of dollars with constant purchasing power, our state tax collections increased 130 percent between 1947 and 1964. (See Figures 1 and 2.)

An increase in the number of taxpayers may change the amount paid per person. Likewise, an increase in the total amount of people's incomes changes their ability to pay taxes. When tax collections are divided by the population of the state, the resulting figure is the average amount of tax paid per person, or per capita. Montana state taxes per capita in 1964 were 173 percent of their 1947 level. But per capita tax figures have the weakness of not taking account of changes in income or in the ability to pay taxes.

An alternative to measuring taxes per capita is to divide taxes by the sum of the incomes of all the people in a state, and thus to express taxes as a percentage of personal income. By this measure, our state's taxes increased 64 percent between 1947 and 1964. Neither of these measures, however, takes into account the number of people who must share the state's personal income, or who share in paying the taxes. For example, a state whose population contains many young children is likely to have a smaller tax base than another state in which the total population is the same size, but includes a larger proportion of people of working age.

Figure 2 shows the percentage increase in total Montana state taxes per capita, and as a percentage of personal income; Figure 3 shows these per capita collections in 1957-59 dollars for each year during the period; and Figure 4 depicts total tax collections as a percentage of personal income in each of the years. These increases in taxes per capita and as a percentage of personal income have occurred for reasons such as public demands for more governmental service, and are affected also by changes in the proportion of school age children in our population.

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1. These years refer to governmental fiscal years ending June 30, 1947, and at June 30, 1964, respectively. In this chapter, fiscal years will be referred to by the calendar year in which they ended.

gure 1. Total Montana State
x Collections, 1947-1964.

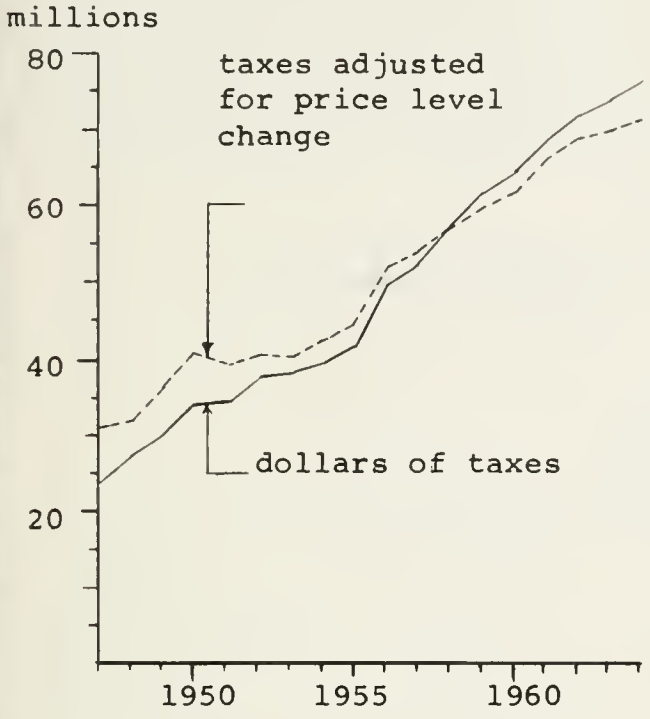
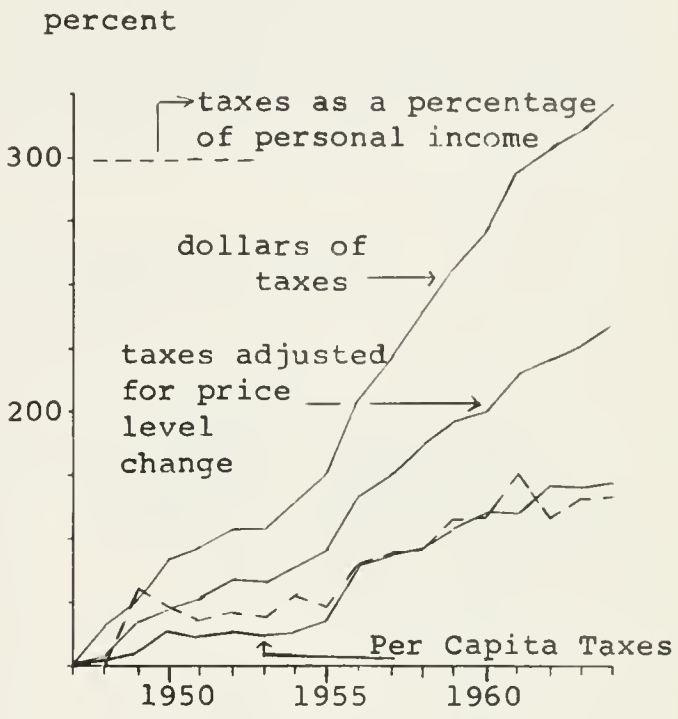


Figure 2. Percentage Increase in Total Montana State Tax Collections Since 1947.



igure 3. Per Capita Total Montana
tate Taxes and Per Capita Motor
uel Taxes, 1947-1964.

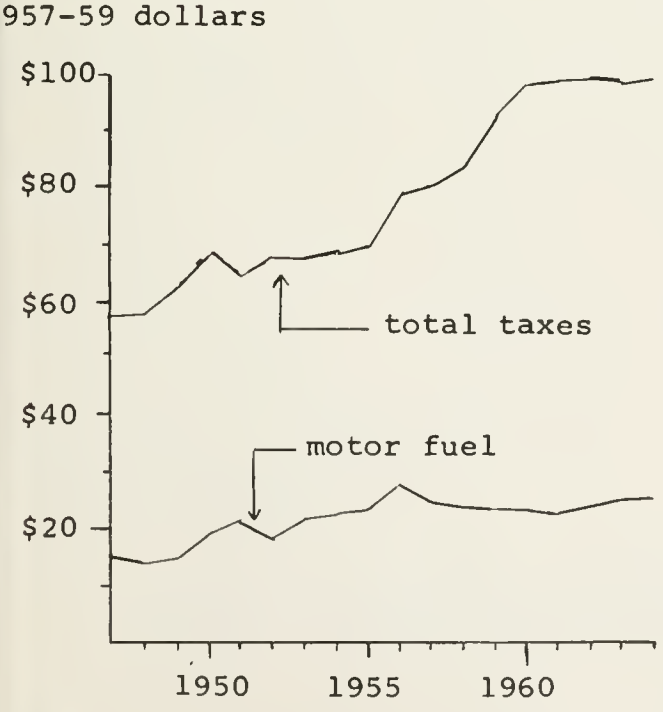
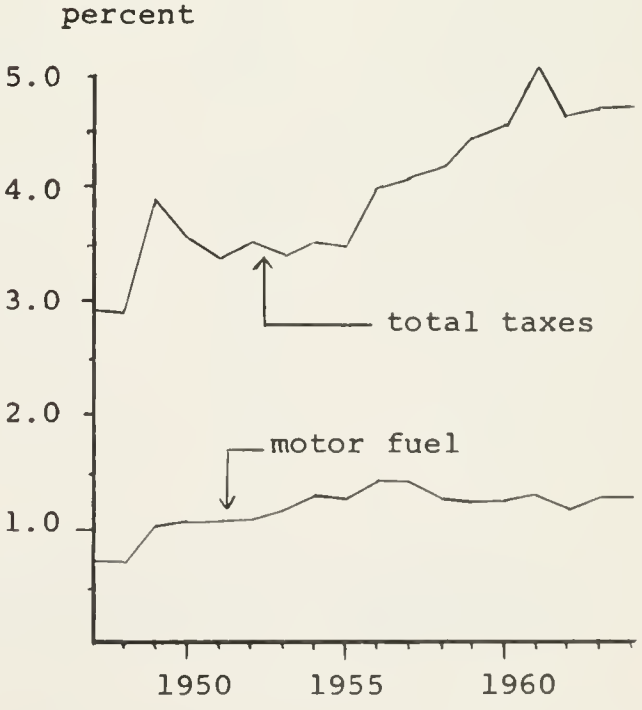


Figure 4. Total Montana State Taxes and Motor Fuel Taxes as a Percentage of Personal Income, 1947-1964.



ource: Computations from United States Department of Commerce, Bureau of the Census, Compendium of State Government Finances, 1947-1964.

In examining trends in Montana tax collections, it is apparent that revenues from some Montana taxes have been increasing much more rapidly than revenues from others. Revenues from the individual income tax as a percentage of personal income in the state have increased 233 percent between 1947 and 1964, while revenues as a percentage of personal income from license fees other than on motor vehicles and motor vehicle operators increased only 12 percent. Table 1 shows the increase in collections totally, in constant dollar terms, in per capita terms and as a percentage of personal income between 1947 and 1964.

TABLE 1

PERCENTAGE INCREASE IN MONTANA STATE TAX COLLECTIONS
BETWEEN 1947 AND 1964

	Total Collections	Collections Expressed in 1957-59 dollars	Expenditures Per Capita (1957-59 dollars)	Collections as a Percentage of Personal Income
Total Taxes	219%	130%	73%	64%
Individual Income	544	364	250	233
Inheritance	525	351	229	225
Tobacco Products	372*	267*	183*	173*
Property	333	212	135	123
Vehicle Operator Licenses	325	206	132	117
Insurance and Utility Gross Receipts	318	202	128	115
Corporation License (Income)	284	177	109	98
Severance	253	155	91	81
Motor Vehicle Fuel	208	122	67	59
Alcoholic Beverages	170	95	47	39
Motor Vehicle Licenses	136	70	28	22
Business and Miscellaneous Licenses	117	56	18	12

*Denotes percentage increase since 1948, the first year in which the tax was collected.

In these comparisons, it should be noted that state tax collections in 1947 were less than state-level expenditures because of budget surpluses accumulated during World War II and receipt of substantial aid from the federal government. The percentage increases presumably would be somewhat smaller had not the surpluses permitted a somewhat lower level of tax collections in 1947.

Current Level of Montana Taxes

Our total 1964 state taxes (in 1964 dollars) were $107.62 per capita. They amounted to 4.78 percent of personal income in the state. Table 2 shows the 1964 collections from our various state taxes on a per capita basis (in 1964 dollars) and as a percentage of personal income in the state. It may be noted that motor vehicle fuel taxes plus the individual income tax yield almost one-half of total state tax revenues.

TABLE 2

COLLECTIONS FROM MONTANA STATE TAXES, 1964

	Per Capita	As a Percentage of Personal Income
Motor Fuel	$29.38	1.26%
Individual Income	20.84	.93
Property	9.10	.40
Cigarette	8.59	.38
Miscellaneous Business and Other Licenses	7.21	.32
Corporate License (Net Income)	7.16	.20
Insurance and Public Utility Gross Receipts	6.22	.28
Motor Vehicle Licenses	5.94	.26
Alcoholic Beverages	5.90	.26
Severance	3.88	.17
Inheritance	3.21	.14
Vehicle Operators	1.18	.05
Total	$107.62	4.78%

The per capita tax burden is simply the average tax per person in a state. However, there are many people, especially minor children, who pay little or no taxes. For this reason, some economists feel it is more meaningful to express tax burden on a per taxpayer basis rather than simply per capita. The primary problem involved in doing this is the determination of who should be classified as a taxpayer and, according to whatever definition of a taxpayer is accepted, just how many taxpayers there are. The number of people who pay Montana individual income tax could provide one rough estimate of the number of taxpayers in the state. Using this basis to estimate the number of taxpayers in Montana, our state taxes were about $379 per taxpayer in 1964. This amount is probably somewhat less than would be the case in the average state.

MONTANA TAXES COMPARED TO OTHER STATES

Comparison of 1964 Taxes

Montana's total tax collections at the state level are significantly less than in the average state, nationally or regionally. Among all states, our taxes per capita rank 39th, and as a percentage of personal income our taxes rank 36th. Among the states in our region, we rank ninth and last respectively. (See Figure 5.)

These comparisons make our taxes look relatively low. However, a very good reason for their comparatively low level is the fact that our state government provides much less aid to local governmental units than does the average state. Just 11.9 percent of our state outlays are aid to lcoal governments; the national average is 30.5 percent. This means that our local taxes are and must be significantly higher in relation to expenditures than in most states. Examination of our combined state and local taxes shows that comparatively high local taxes do indeed prevail in Montana.

Our collections from motor vehicle fuel, inheritance, property, cigarettes, alcoholic beverages, and business and miscellaneous license taxes are greater per capita and as a percentage of personal income than the median state nationally or regionally.[2] Our individual income tax collections are approximately equal to the national and regional medians. Our corporate license (the base of which is corporate net income), motor vehicle license, insurance and public utility gross receipts license tax collection per capita and as a percentage of personal income rank below those in the average state, nationally and regionally. (See Table 3.)

Collections by a state from a given tax source may differ significantly from the average according to the provisions of its tax law, or as a result of differing economic conditions. The long distances between communities and tourism are undoubtedly important determinants of the high level of our motor fuel tax collections. (Table 3) On the other hand, the somewhat higher than average level of our personal income tax rates in conjunction with somewhat lower than average income level probably accounts for the fact that our burden from this tax approximates the median. Since per capita personal income in Montana was only 90 percent of the national level, and 94 percent of the level in the region excluding North and South Dakota, it takes higher than average tax rates to obtain average tax yields. The fact that we rank tenth in the nation according to severance tax collections per capita and as a percentage of personal income is, of course, largely attributable

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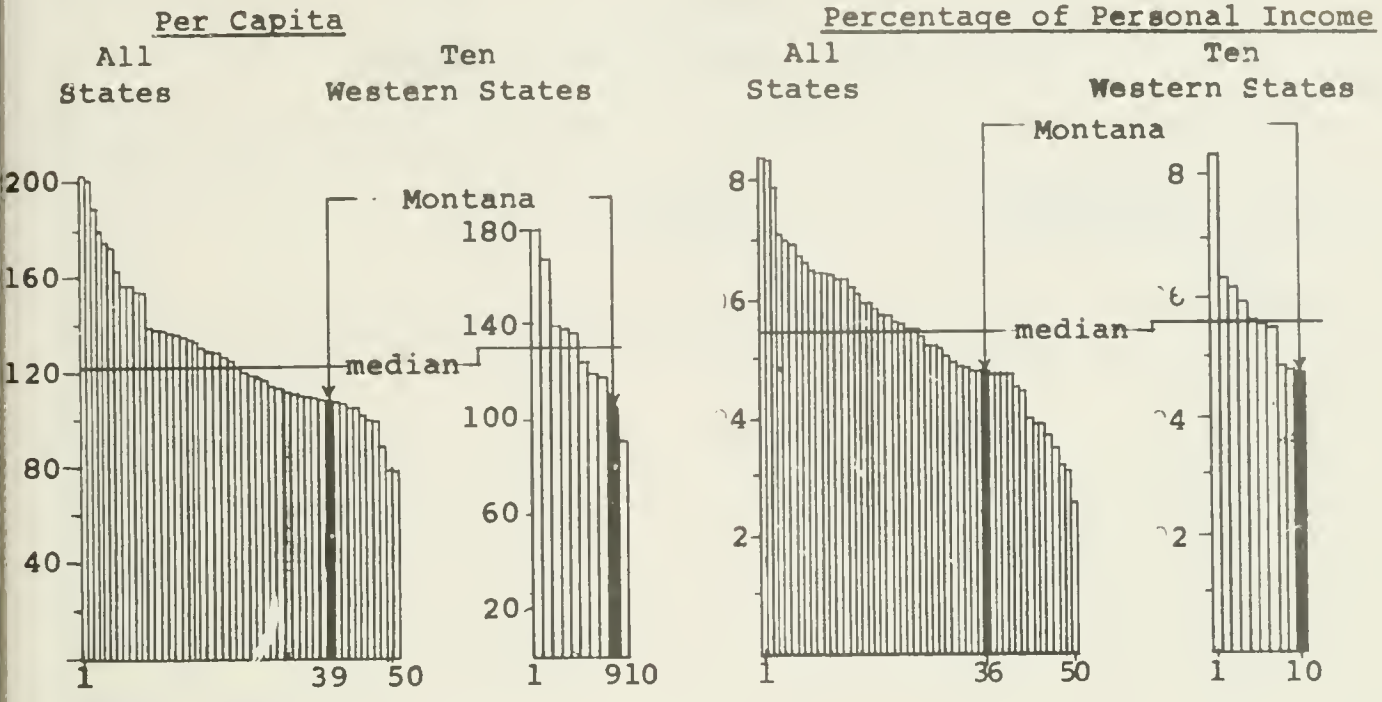
2. A median is the middle number on a list of numbers ordered from largest to smallest. For example, five would be the median of 10, 9, 5, 4, 3.

Figure 5

Montana's Ranking According to Total State Tax Collections, 1964



to the fact that we have greater mineral resources than most states. The comparatively high position of our state property tax collections results both from legislative decision for the state to tax property at a higher rate than do most states, and from the fact that per capita ownership of property is greater in Montana than in the average state. The rate at which we tax cigarettes is as high as any in the nation.

There appears to be some inconsistency between the fact that the level of most of the taxes which Montana levies is above the national and regional medians and the fact that our total taxes rank well below the median. Actually, this inconsistency comes from the fact that many of the states whose taxes rank higher than Montana's utilize one or more revenue sources we do not use. The major such revenue source is the retail sales tax, which 41 states levy. Twenty-five of these 41 states levy a personal income tax as well as a retail sales tax.

Ranking of Montana Taxes Since 1947

Examination of the ranking of any tax or of total taxes over such a period of years shows whether the level of our taxes is rising or falling as compared with other states. Significant changes in ranking can occur as a result of changes in the rate or base of our tax, rate or base changes in a number of other states levying the tax, or significant changes in economic conditions.

Montana's ranking of per capita total tax collections among 50 states has generally fallen since 1947. However, the ranking of our total taxes as a percentage of personal income has shown a somewhat upward trend. The reason for the opposite direction in these trends is that per capita personal income in Montana has

TABLE 3

RANKING* OF VARIOUS MONTANA STATE TAXES, 1964

	Per Capita		Percentage of Personal Income	
	All States	Ten Western States	All States	Ten Western States
Motor Vehicle Fuel	3/50	2/10	11/50	2/10
Motor Vehicle License	41/50	10/10	39/50	10/10
Motor Vehicle Operators	13/49	2/10	12/49	3/10
Individual Income	17/35	3/6	17/35	4/6
Corporate Income	20/37	3/7	23/37	3/7
Estate, Inheritance, and Gift	20/49	2/9	19/49	2/9
Business Gross Receipts	33/50	6/10	32/50	6/10
Severance	10/24	4/9	10/24	4/9
Property (State only)	7/44	5/10	7/44	5/10
Tobacco	8/48	2/10	8/48	2/10
Alcoholic Beverages	11/50	2/10	9/50	1/10
Miscellaneous Business License	14/50	4/10	16/50	5/10

*Rankings stated according to the number of states levying the tax in question.

Source: Same as Figure 1.

not grown nearly as rapidly as per capita personal income in the nation as a whole. Personal income per capita in the state was 124 percent of the national average in 1947; in 1963 it was only 90 percent. Since there has been less income increase to finance additional taxes in Montana than in the average state, there has been a tendency for our taxes to increase in relationship to personal income. There has been no pattern of change in the ranking of Montana's total state taxes among the states in our region.

With respect to state tax collections on alcoholic beverages, cigarettes, motor vehicle fuel and property--both per capita and as a percentage of personal income--among all states and among the states in our region Montana's rankings have been generally rising since 1947. The corresponding rankings of our miscellaneous business and other license tax collections has been somewhat downward. Ranked among all states, our per capita individual income tax collections have fallen slightly; as a percentage of personal income our collections from this tax and from the inheritance tax have gone up. Our ranking among our ten neighboring states according to corporate income tax collections as a percentage of personal income has risen.

Comparison of Montana's Tax Revenue Patterns, 1964

A final way of comparing taxation in Montana with taxation in other states is to compare the percentages of total tax revenues obtained from various sources. Table 4 compares the percentage of total tax revenues obtained from particular types of taxes in Montana against those in all of the states taken together. It may be of interest that we obtain a much greater percentage of total state taxes from motor vehicle fuel taxation than most states, and obtain no revenue from the largest single source of state revenue in the United States, the general sales tax. (However, as discussed in the following section, almost 59 percent of state plus local tax collections in Montana are property taxes.)

TABLE 4

PERCENTAGE OF TOTAL TAX REVENUES OBTAINED FROM VARIOUS TAXES IN MONTANA AND IN ALL STATES TAKEN TOGETHER, 1964

Tax	Montana	All States	Ten Western States
Motor Fuel	26.4%	16.7%	18.7%
General Sales	-----	25.1	27.1
Individual Income	19.4	14.1	13.1*
Other Business (Business license, gross receipts, severance)	16.1	13.9	11.3
Corporate Income	6.7	7.0	5.3
Property	8.5	3.0	7.4
Tobacco	8.0	4.9	3.5
Alcoholic Beverage	5.5	3.6	2.8
Other	9.4	11.7	10.8

*Excluding consideration of New Mexico, which does not report individual and corporate income tax collections separately.

MONTANA STATE AND LOCAL TAX COLLECTIONS

Trends and Amounts of Combined State and Local Taxes

Between 1957 and 1964, Montana combined state and local tax collections went up at approximately the same rate as the state only collections. Total tax collections at combined state and local levels were approximately 31 percent higher in 1964 than they were in 1957. Figure 6 shows the percentage increase in combined Montana state and local tax collections in actual dollars, 1957-59 dollars, 1957-59 dollars per capita, and as a percentage of personal income. Figure 7 shows the same information for combined state and local property tax collections. Both property tax collections and total taxes show similar patterns of increase. Figure 8 depicts per capita total and property taxes in 1957-59 dollars, and Figure 9 shows total and property taxes as a percentage of personal income. These figures show that while all measures of tax collections have increased, the increase in total and property taxes as a percentage of personal income has been only about one-third of the increase in actual dollars of taxes collected, and about one-half the increase in 1957-59 revenue dollars. However, even taxes as a percentage of personal income have increased by an average of a little over two percent per year, for they increased by 14 percent during the 1957 to 1964 period.

In 1964, total Montana state and local taxes amounted to $256.87 per capita, or 11.4 percent of personal income in the state. The corresponding figures for state and local property taxes were $150.58 and 6.7 percent. If we again make the assumption that the number of people paying the state individual income tax might approximate the number of taxpayers in the state, total Montana state and local taxes in 1964 would amount to $904.89 per taxpayer.

Montana State and Local Taxes Compared to Other States

Montana's total per capita taxes ranked seventeenth in the nation and fourth in the region in 1964; as a percentage of personal income they ranked fifth and second respectively. (See Figure 10.) When we compare these rankings with the rankings of our state taxes only, it is obvious that we provide much less state aid to local governments than the typical state does. The amounts by which the rankings of our total taxes as a percentage of personal income exceed the per capita ranking can, for the most part, be explained by the fact that personal income per capita in the state is less than the national or regional average.

State and local property tax collections rank fifth in the nation and first in the region on a per capita basis, and second in both the nation and the region as a percentage of personal income. (See Figure 11.) Among the reasons for these high rankings are the facts that we rely more heavily on property tax as a tax source than the average state, and that there is much more property per person in Montana than in the typical state. Property taxation contributed almost 59 percent of our state and local tax revenues; the national average was 44 percent. The amount of residential and farm property owned per capita in Montana was estimated to be 148 percent of the United States average in 1962.[3] Figure 12 shows the ranking of total Montana state and local tax collection, on a per capita basis and as a percentage of personal income, among all 50 states and among the ten western states, for each year from 1957 to 1964. Although we have ranked above the median in all such rankings in all years, the trend of our total tax collections--both per capita and as a percentage of personal income--has been somewhat downward.

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3. United States Department of Commerce, Bureau of the Census, 1962 Census of Government.

Figure 6

Percentage Increase in Total Montana State and Local Taxes Since 1957.

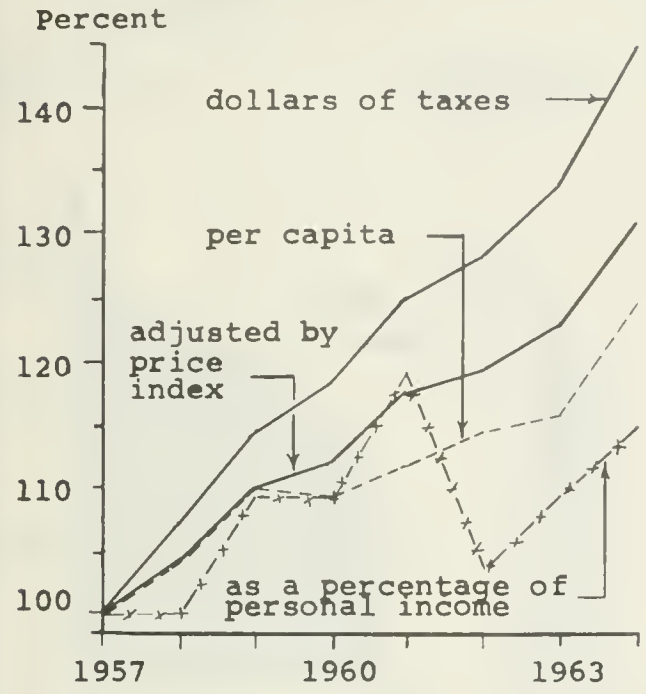


Figure 7

Percentage Increase in Montana State and Local Property Taxes Since 1957.

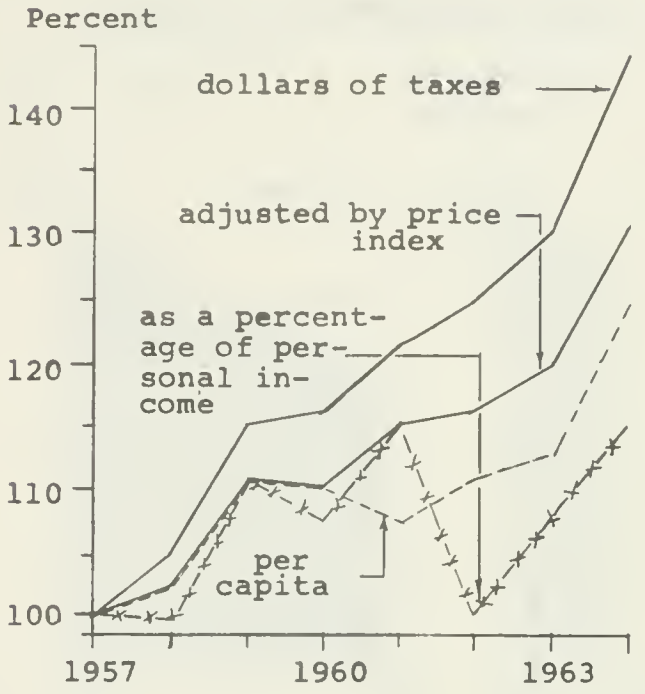


Figure 8

Per Capita Montana Total State and Local Taxes and State and Local Property Taxes, 1957-1964.

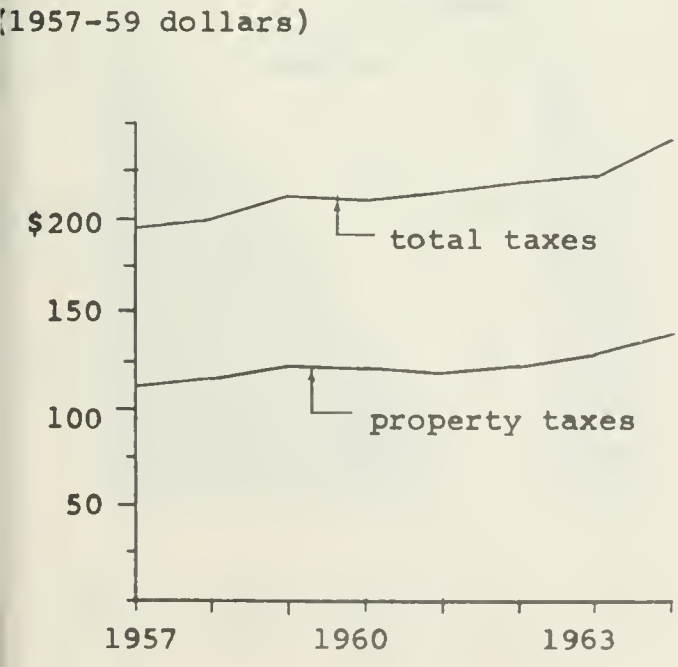
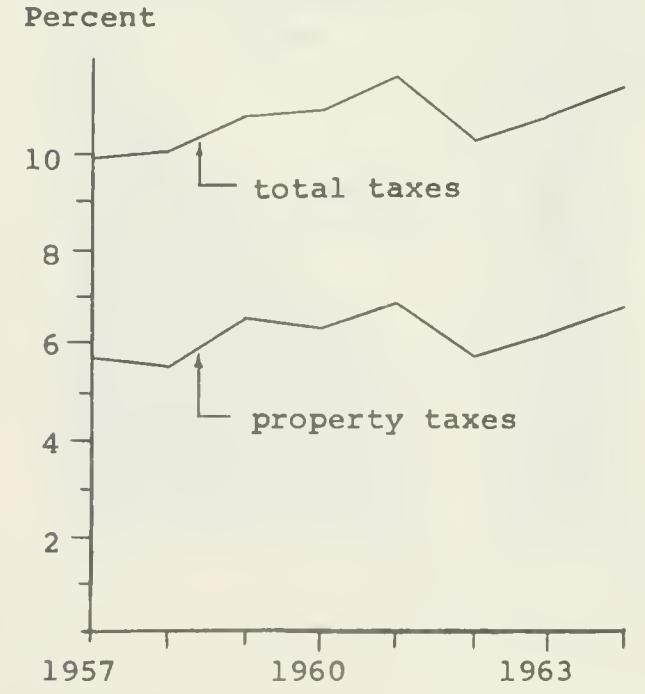


Figure 9

Total Montana State and Local Taxes and Property Taxes as a Percentage of Personal Income, 1957-1964.



ource: United States Department of Commerce, 1957 Census of Governments, Governmental Finances in 1958 to 1964.

Figure 10

Montana's Ranking According to Total State and Local Tax Collections, 1964

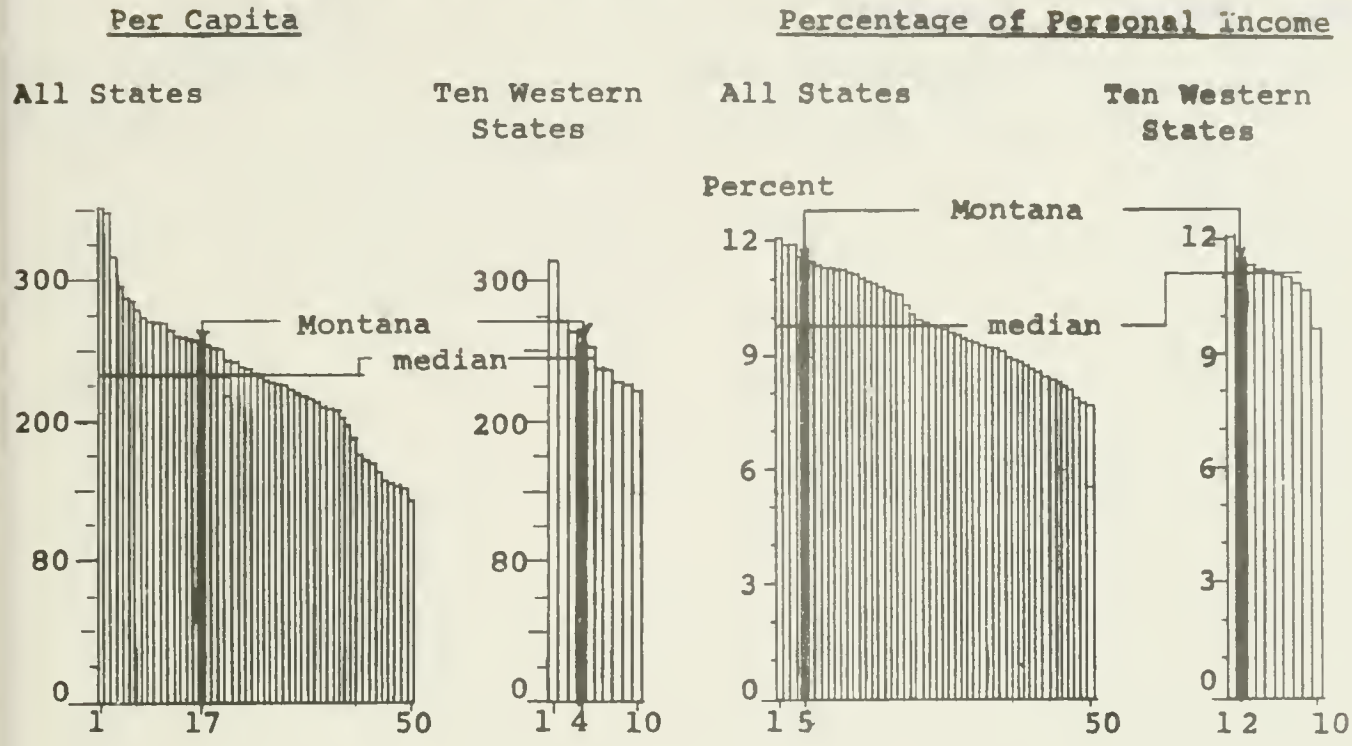
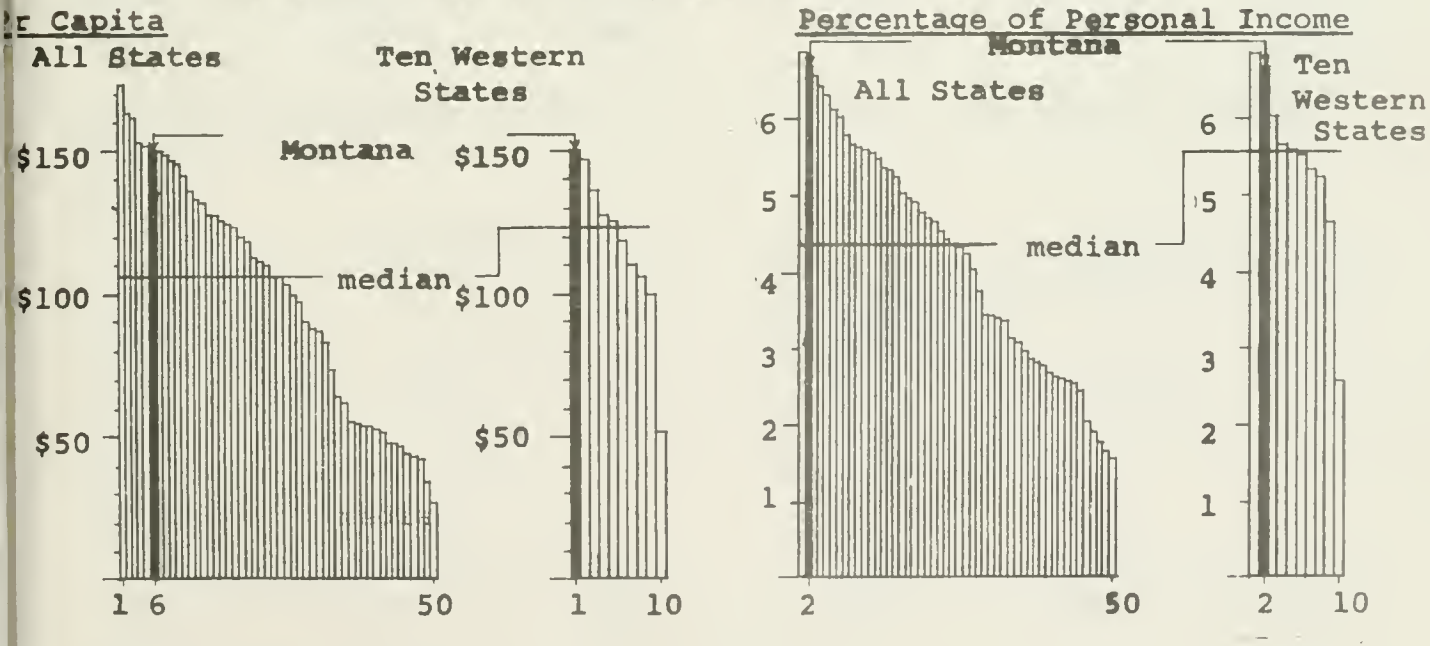


Figure 11

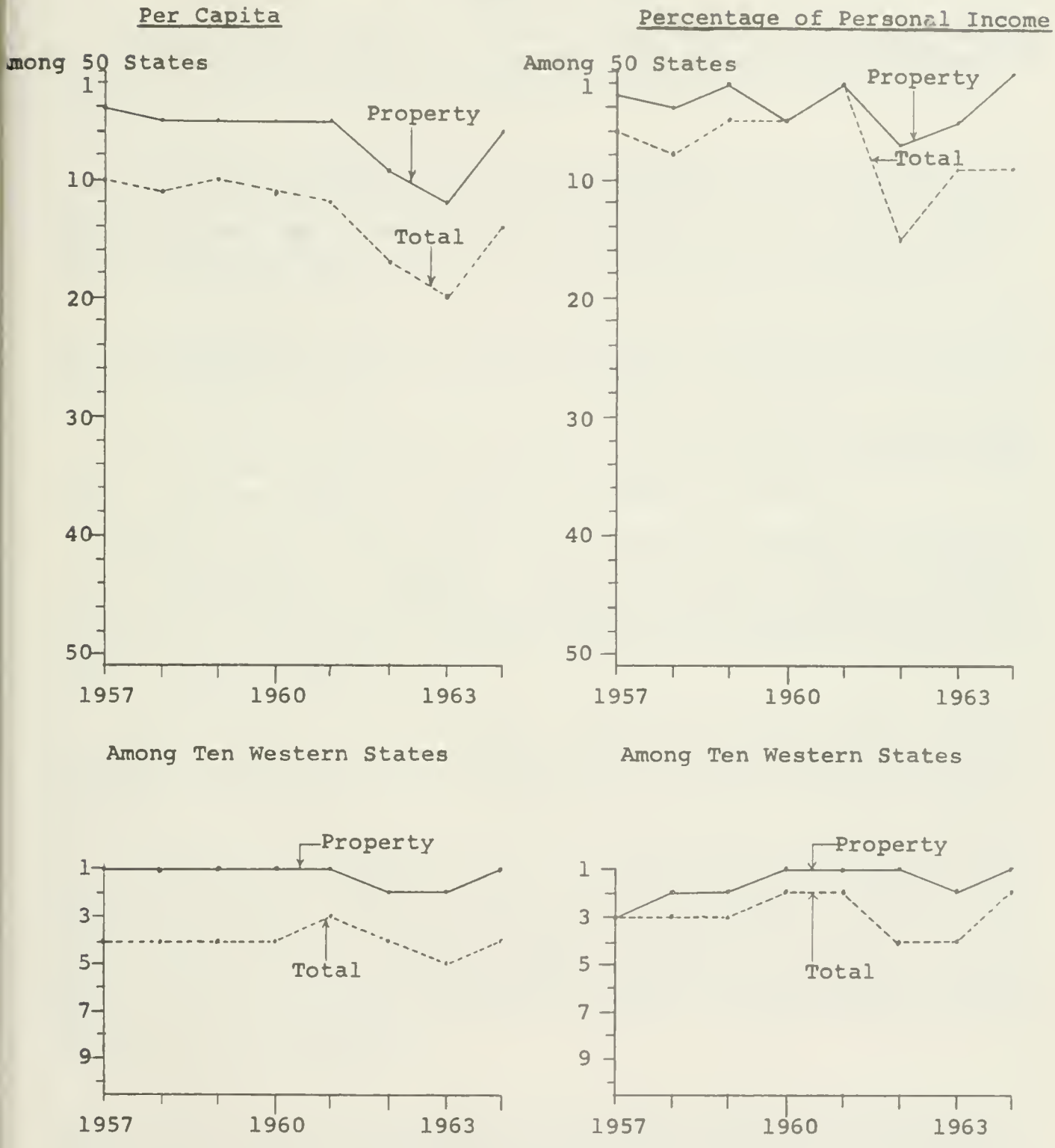
Montana's Ranking According to State and Local Property Tax Collections, 1964



Source: Same as Figure 6.

Figure 12

Montana's Ranking According to State and Local Total Tax Collections and Property Tax Collections, 1957 to 1964.



Source: Same as Figure 6.

SECTION C--THE MONTANA TAX SYSTEM--SOME HISTORICAL HIGHLIGHTS

by Layton S. Thompson

The theme of this section is that tax systems and other institutional patterns are never developed in a vacuum. There are historic and environmental reasons why we are as we are at any point in time and why we are moving in some one or the other direction.

Changes have occurred which require some adjustments in tax structure in Montana. In making adjustments we need to remind ourselves constantly that more changes are on the way. No one seriously believes that we will be able to solve our tax problems (say) in 1967 and then simply "live happily ever after." Although adjustments almost always involve some catching up with what has already occurred, true statesmanship involves at least some elements of foresight.

We can have some insights concerning what the future holds if we have a reasonable understanding of where we now are and can discover some important trends. And we can better understand where we are now and what the trends are if we pause briefly now and then to look where we have been and ponder a little on how we got here.

At the end of this chapter is an exhibit entitled "Calendar of Taxation Highlights in Montana." It is interesting to see how the present tax system "unfolded" and to relate past changes to historical developments and events.

1889-1910.--The calendar begins with the emergence of Montana as a state in 1889. An examination of the original constitution, the session laws of the first ten or twelve legislative assemblies, and the early reports of the State Board of Equalization reveals an almost complete dependence on the property tax for both state and local revenue needs. Business licenses occupy considerable space in the session laws and of course, produced some revenue although control aspects were also an important consideration.

Both a poll tax (or poor tax) and a road tax were imposed in early sessions of the legislature (these were both carried over from territorial days). Two other taxes, which are still with us, were imposed in the 1897 session, namely the inheritance tax, which is a form of property tax, and a tax on insurance premiums.

For many years the biennial report of the State Board of Equalization has begun its report on the taxation of mines with the sentence "At the time of the constitutional convention in 1889, Montana's only industries worthy of mention were metal mining and stock raising, with mining greatly predominant." There was some crop farming, especially in mountain valleys, along with flour mills, to feed the miners. The first report of the State Board of Equalization is devoted to (a) proposing working rules for the Board and (b) a report of the assessment of railroads and apportioning the assessed value of the railroads to counties, cities, towns, townships and school districts.[1]

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1. Montana railroad mileage was not insignificant in 1889. The N. P. was completed in 1883, including a branch line into Yellowstone National Park (Hamilton, J.M., From Wilderness to Statehood, Binfords & Mort, 1957, p. 371), the Utah and northern branch of the U. P. was completed to Silver Bow Junction, seven miles below Butte, Dec. 21, 1881 (Hamilton p. 371) and the G. N. was completed as far as Havre in 1888. (Johnson, Neil W., Farm Adjustments in Montana, Study of Area VII, Montana Agricultural Experiment Station Bulletin 367, p. 8.

The farms and ranches, the mines, and the railroads were reached by the property tax, the merchants and the few professional men were reached by licenses and the property tax, and adult males paid the head taxes. Compared with what we now have, it was an uncomplicated tax system.

The population in Montana in 1889 was 132,000 according to the U. S. census of population, it had grown to 243,000 in 1900 and 376,000 in 1910. By this time important events were bringing in a new era.

1910-1925.--The period from 1910 to 1919 was the period of heavy homesteading activity in Montana. Of the total area of the state entered for homesteading from 1869 to 1934, over two-thirds was filed upon during this 10-year period, with special concentration of homesteading activity during the eight-year period from 1910 to 1917.[2] A period of unusually heavy precipitation preceded and accompanied the years of heaviest filings over most of the state.[3] During the period from 1906 to 1916 inclusive, precipitation in the eastern part of the state was above normal in all but one year.[4] There has been no other period of such sustained good precipitation since Montana became a state.

The homestead period was also a period of good prices for farm commodities. For many years the U. S. Department of Agriculture used the years from 1910-1913 as the base period for the various parity indexes to measure the relationship between prices of farm products as compared with prices in the remainder of the economy. Prices reached a peak during World War I, 1914 to 1917. High prices for farm commodities and optimism resulting from the unusually good precipitation were reflected in high land prices. Liberal use was made of credit for agricultural purposes.[5]

From 1910 to 1920 the number of farms more than doubled and total crop land approximately trebled. The number of Montana farms reached an all-time high at the time of the 1920 census of 57,677.[6] The state's population increased by 46 percent during the decade. By 1910, people were buying Model T's and other makes of cars.[7] It took more miles of roads to reach all those farms and car owners needed better roads. The number of pupils enrolled in the first eight grades of school reached 105,395 in 1920, which established a record that was not equalled again until 1957-58. (See Part II, Section C.)

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2. Johnson, Neil W. and Saunderson, M.H., "Types of Farming in Montana," Montana Agricultural Experiment Station Bulletin No. 328, Bozeman, Montana, 1936, pp. 30, 31 and 79.

3. Ibid., p. 31.

4. See "Montana Agriculture, Basic Facts," Bulletin 293, Montana Cooperative Extension Service, 1962, p. 11.

5. Farm mortgage indebtedness in Montana increased from less than $20 million in 1910 to $155 million in 1920, or 690 percent during the 10-year period. See Renne, R.R., "Readjusting Montana's Agriculture, Tax Delinquency and Mortgage Foreclosure," Montana Agricultural Experiment Station, Bulletin No. 319, 1936, p. 19.

6. As compared with 26,214 in 1910 and 28,959 in 1960.

7. Henry Ford formed a company in 1903 and began to make two-gear, two-cylinder cars. The Model T came on the market soon after. See World Book Encyclopedia, Vol. 6, 1952, p. 2685.

After the War, evil days fell upon Montana's agriculture. A series of four years of below normal precipitation from 1917 through 1920 reduced yields, and prices of farm commodities fell precipitously when the war-induced demand fell off. By the year of 1923, farm foreclosures reached the all-time record number of any one year of 5,173, approximately one foreclosure for every ten farms.[8] Farm bankruptcies reached an annual peak in 1924 when 693 were recorded.[9] The peak in tax delinquency occurred later, in 1932.[10]

What wonder that this period of drastic change should result in a flurry of changes in Montana's tax structure, a flurry which appeared to reach its climax in the 1921 legislative assembly. The legislative activity was obviously centered on (a) a search for sources of revenue other than the property tax and (b) attempts to improve the administration of the property tax.

It all began as far back as 1913 when the registration (licensing) of motor vehicles was required "for the purpose of raising revenue for the construction, maintenance, and improvements of public highways." One-half of the funds raised were to go to the county general road fund and one-half to the State Highway Fund to be administered by the newly created Montana Highway Commission. In 1917 the Corporation License Tax law was passed and a Montana Tax and License Commission was created to make a study of the Montana tax and license structure.

In the legislative sessions of 1919, 1921 and 1923 a series of new business license taxes were added to the system. (See Calendar of Taxation Highlights at the end of this chapter.) An express company license tax, a freight line company license tax, a coal miners and dealers license tax, a cement producers license tax, an oil producers license tax, a metals mines license tax, and a sleeping car license tax.[11]

In 1921, the legislature introduced the tax which was to become the second largest source of state and local revenue in Montana (up to now), namely the gasoline distributors and dealer's license tax. (See Table 6, Section A of this part.) The first law, which was later declared unconstitutional by the supreme court, set the tax at 1 cent per gallon. A second act passed in 1923, which was also later to be declared unconstitutional, set the tax at 2 cents per gallon. A 3 cent gasoline tax initiative was passed by the voters in the general election of 1926.[12]

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8. Renne, R.R., "Montana Farm Foreclosures," Montana Agricultural Experiment Station, Bulletin No. 368, 1939, p. 10.

9. Renne, R.R., "Montana Farm Bankruptcies," Montana Agricultural Experiment Station, Bulletin No. 360, 1938, p. 16.

10. Renne, R.R., "Readjusting Montana's Agriculture-Tax Delinquency and Mortgage Foreclosure," Montana Agricultural Experiment Station Bulletin No. 319, 1936, p. 6.

11. In the aggregate these taxes have yielded only a modest amount of revenue. Only the oil producers license tax and the metals mines license tax have ever yielded more than one million dollars in any one year. The metals mines license tax produced its greatest amount of revenue, $1,109,000, in 1957 and the oil producers license tax reached its peak yield of $1,854,000 in 1963.

12. "The first gasoline tax was levied in the U. S. in 1919. The use of the tax spread so rapidly that by 1929 all 48 states had adopted the tax." Halcrow, Harold, "Montana's Tax System," Montana Agricultural Experiment Station Bulletin No. 452, September, 1948, p. 12.

The second major tax reform effort at the beginning of the 1920-1930 decade was the effort to improve the administration of the property tax specifically and, in general, all taxes. In 1921, the legislative assembly submitted to the voters a proposed amendment to the constitution (approved in the election of 1922) which would provide for a State Board of Equalization consisting of three members to be appointed by the governor and approved by the senate and setting forth the powers and duties of said Board. Among the duties specified was the administration of the new license taxes discussed above. Other duties assigned to the newly constituted Board was the administration of the inheritance tax and corporation license tax laws and the assessment of net proceeds of mines.

Two other acts were passed in 1919 and both re-enacted in 1921. One provided for the classification of all property in the states into seven categories each of which was to have a "taxable value" at a specified percent of "assessed value." The other provided for the classification of land for assessment and taxation purposes.

1925-1946.--Whereas some of the economic forces at work in Montana in the previous period were somewhat unique to this state, particularly the intensive, over optimistic, homesteading activity, this state was affected during the next 20 years by forces not only nation-wide but some of them world-wide in character. Agriculture was now definitely the dominant industry in Montana. The agricultural depression during the 1920's, in contrast to generally prosperous conditions in the non-agricultural sectors of the economy was a nation-wide phenomenon.

Then came the great depression of the 1930's. This was world-wide in scope, but its effects on agriculture in the United States in general and particularly in the Great Plains, were exaggerated by drouth conditions from 1928 to 1937. (Extreme drouth conditions in 1934 and 1936.)

Beginning in 1938, just one year before the beginning of World War II, and running to 1948, Montana again experienced a period of (generally) good rainfall combined, during much of the period, with wartime prices.

From 1925 to 1946 was the period, also, of mechanization in agriculture. In the early '20's, horses and mules furnished much of the power on Montana farms. By the end of World War II, the horse had almost disappeared as a source of farm power. This was also the period of electrification of farms and small towns. This period marked the appearance of all-weather roads, mostly gravel surfaced in the 1920's but with increasing mileage of hard-surfaced roads during the 1930's. From the standpoint of tax problems, the significance of many of these changes is seen in part in the increase in cash costs other than taxes, which increases the vulnerability of the farm firm in the face of fluctuations in gross incomes. New or expanded government services were demanded (see Part III) including the highways already mentioned, research, education, health and welfare and police protection.

For a study of state and local taxes and public services, this period needs to be broken into two parts, (a) the period until 1939-40, when World War II began, during which efforts were required to adjust the tax system to the changes and adjustments which had taken place or were taking place in the Montana economy and (b) the period of World War II which was a dormant period as far as state and local tax problems were concerned.

Tax adjustments of a substantial nature were made in the early 1930's, and again the changes took the form of attempting to find new sources of revenue to

replace property taxes, particularly farm real estate property taxes. The following quotations are taken from biennial reports of the State Board of Equalization:

> (1932)"Unparallelled depressed financial conditions, the loss of earning ability, the depreciated values of all products produced in Montana have been such that reductions in valuation of livestock and real estate were necessarily made by this Board."[13]

> (1938)"As a result of Board Orders and the willingness of the majority of assessors to join in this program, there has been a shift of approximately $96,000,000 in assessed values. This shift in valuation involved a decrease in farm lands and improvements of approximately $43,700,000, livestock dropped about $11,500,000, while utility valuations decreased $3,600,000 under the 1936 figures. That is a total decrease of approximately $58,000,000. A checkup on all other classes of property resulted in an increase of slightly more than $37,150,000."[14]

By 1941, the taxable valuation of all farm lands had decreased to $72,318,922 as compared to $162,939,399 in 1923, a decrease of 56 percent. Using 1923 as the base, livestock values decreased by 40 percent in 1938, utilities by 17 percent in 1939, and all property by 32 percent by 1939.

The legislature turned to several new sources of revenue in the early 1930's. Upon the repeal of prohibition, the State Liquor Control Act and the Montana Beer Act were passed in 1933. These have produced substantial amounts of revenue. A personal income tax law was passed in 1933, but did not produce large amounts of revenue until after the beginning of World War II. The corporation license tax rate was raised to 2 percent in 1933 and to 3 percent in 1937.

Other new taxes originating during this period were the chain store license tax, telegraph company license tax, telephone company license tax, natural gas distributors license tax, electrical energy license tax, contractors license tax, and moving picture theater license tax. A motor carrier fee of one-half of one percent of gross operating revenue was passed in 1933.

As was stated above, the years of World War II constituted a dormant period from the standpoint of state and local tax and public service problems. Enrollment in grade schools, high schools and colleges were in 1944 and 1945 lower than at any time from the early '20's until now. This was partly the result of the reduced number of births of the early '30's (grade school) but, also many older boys and girls postponed their education to join the labor forces or the armed forces. Some types of state and local expenditures could not be made because neither materials nor manpower could be directed to these uses. A backlog of needed construction and maintenance was accumulating, but surpluses also accumulated in the general fund. Welfare problems were greatly reduced by war prosperity. Taxpayers were forced to save because of the scarcity of things to buy. And tax collections were good because of general economic prosperity.

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13. Fifth Biennial Report (1930-1932) p. 4.

14. Eighth Biennial Report (1936-1938) p. 3.

1946-1965.--The changes which have taken place in this 20-year period are as profound as those which have been noted in the three periods which came before. The forces which have been at work are, of course, rooted in the past, but what is more important to us, we must have some understanding of them if we are to make some preparations for the future.

The years since World War II can be characterized as years of prosperity and economic growth for the United States and for Montana. The ordinary citizen can and does have conveniences in his home today which were unavailable to kings a generation ago. He can also have better roads and better schools and other public services and he has insisted on having them. But one thing he cannot do is to call a halt to change and the need to adjust which comes with change.

One of the fundamental forces with which we must reckon is population changes--changes in number, changes in composition, and changes in geographic distribution. These changes are related in important ways to problems of financing public services and the direction of some of these changes in Montana are somewhat different from those in other states because of our history.

The homesteading period concentrated in the first 20 years of this century (especially 1910-1917) brought in large numbers of young men with wives and families. In 1910, the 20-34 age group constituted one-third of the total population in Montana. There were more children in grade schools in Montana in 1920 than in any subsequent year until 1957-1958. This "bulge" of a particular age group can be followed through by 10-year census periods to the present.[15] These young homesteaders, if they still live, are now past 70 years old. Combined with longer life span, the result is a substantially larger percentage of Montana population in the over 65 age group than 20 years ago, and a larger present percentage than for the nation as a whole. The wave of children produced by the homestead group have produced during the past 20 years a third generation which is now in school. Combined with the postwar nation-wide increase in birth rate, this has resulted in a larger percentage in the under 18 age group than 20 years ago and a larger present percentage than for the nation as a whole.[16] [17] These two groups make up what sociologists call the dependent population, which determines much of the burden of expenditures both public and private. A substantially smaller percentage of the population is left in the age 18 to 65 work force which must pay the bills,

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15. Pederson, H. A., "Montana's Human Resources, Age and Sex Distribution," Montana Agricultural Experiment Station Circular 234, 1962. p. 4.

16. Ibid., pp. 8 and 9.

17. Number of births per year in Montana was approximately 12,000 in 1920 and 1921. Births decreased to 8,593 in 1933 and then increased to a level of about 11,000 for the war years 1939-1945. In 1946 there was a sharp increase in births to about 13,000 and for several years after 1954 the figure held between 17,000 and 18,000. The effect of this increase can be traced through the school system since about 1952. Babies born in 1946 would enroll in college about 1964 or 1965.

TABLE 1

PERCENTAGE OF MONTANA'S POPULATION IN THE THREE MAJOR CATEGORIES IN 1950 AND 1960*

Age Group	Percent 1950	Percent 1960
Under 18	33.0%	38.6%
18 - 64	58.4	51.7
65 and over	8.6	9.7

*Source: Pederson, Harold, "Montana's Human Resources," Montana Agricultural Experiment Station Circular 234, pp. 8 and 9.

including taxes.[18] (Substantially smaller than in the past and substantially smaller than the national average.)

The growth in Montana population during the homestead period is reflected in Table 2. There was very little change in the total population from 1920 to 1950 although the composition was changing as discussed above.[19] For the whole 30 year period, population increased by 8 percent. From 1950 to 1960, the state's population increased by 14 percent as compared with a national average of 18.5 percent. A growing population causes a greater than proportionate public expenditure because of the capital investment required over and above the maintenance of the old plant.

The other important population shifts must be examined because of their relation to tax problems. One is the occupational shift. The outstanding shift in Montana has been from agriculture to other industries. (See Table 3.) This has an important bearing on the need to consider revenue sources other than the property tax. The organization of farms into larger units does not in itself reduce the capacity of land to pay taxes. But as people move into service and professional fields, ownership of property becomes a less and less adequate measure of the relative ability of people in different fields to pay taxes.

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18. The cost of providing public services such as schools, roads, police protection and care of the aged is given the term "social overhead." The relative burden of social overhead through time deserves much more consideration than can be given here. For example, the psychological effect of changing from a situation such as existed in 1920 in Montana, when we had very few people in the over 65 age group (they remained in the East) and a relatively large work force, to the situation that exists in the state in 1965, where the dependent groups are both larger than the national average and the work force relatively small, must not be overlooked.

19. Actually there was some decrease in Montana's population in some years in the early 1940's as people left for the armed forces or to take jobs in defense industries.

TABLE 2

POPULATION IN MONTANA, 1890-1960

Year	Population	Changes from Previous Period	Percent Change
1890	132,000	-------	--
1900	243,000	111,000	84
1910	376,000	133,000	55
1920	549,000	173,000	46
1930	538,000	-11,000	2 negative
1940	559,000	21,000	4
1950	591,000	32,000	6
1960	675,000	84,000	14

TABLE 3

NUMBER OF FARMS IN MONTANA, 1920 TO 1960 AND CHANGE PER 5-YEAR PERIOD*

Year	No. of Farms	Change During Five Year Period
1920	57,677	-------
1925	46,904	-10,773
1930	47,495	+ 591
1935	50,564	+ 3,069
1940	41,823	- 8,741
1945	37,747	- 4,076
1950	35,085	- 2,662
1955	33,061	- 2,024
1960	28,957	- 4,104

*Source: U. S. Census.

The movement of people from farms is related of course to the trend toward mechanization. The same trend is operative in many other areas where machinery has been used to replace labor. There is a large range in the amount of investment per worker, presumably in taxable property, in various industries (see Table 4), but the contrast between industry and the financial, commercial, professional and service groups would be even greater.

One more important population shift has been geographical. This has involved different rates of movement from the farm to the city among the counties. Whereas the population of the state increased 14 percent from 1950 to 1960, there was a range from a net loss of 18.8 percent in Carbon County to a net gain of 50.4 percent in Valley County. The greatest losses have been in some of the plains areas of the state and the gains have tended to occur in the western part of the state, plus plains counties with fairly large cities. These shifts cause problems in

TABLE 4

AVERAGE INVESTMENT PER WORKER IN SELECTED INDUSTRIES IN THE UNITED STATES*

Industry	Assets per Employee
Petroleum Refining	$73,739
Mining	50,139
Agriculture	30,000
Metal Manufacturing	21,345
Lumber and Wood Products	18,878
Motor Vehicles and Parts	15.078
Rubber	12,766
Textiles	10,934
Apparel	8,778

*Source: For agriculture, "Agricultural Credit and Related Data, 1965," Agricultural Committee, the American Bankers Association, p. 36. For other industries, "The Fortune Directory, 500 Largest U. S. Corporations," August, 1964, p.22. The figure for agriculture includes only tangible property and may not be exactly comparable with the others which probably include cash, receivables, and so on.

financing government services in both groups of counties. Per capita costs of the "social overhead" tends to increase in the counties with declining population and construction of additional public facilities is required in areas of increasing population.

One final factor at work in the first part of the period from 1946-1965 was an increase in the price level when price controls were lifted after World War II. This plus the increase in real income, the pressure to increase size of farm and ranch units, anticipation of future increases in price level and real income, the demand for land for other uses plus possibly other factors have served to increase the price of land rather steadily during the period.

What changes in the tax structure have accompanied the forces which have been reviewed? Substantial increases in revenues automatically occurred because of inflation as well as increases in real income. Starting with surpluses in the general fund and experiencing some lag in the availability of resources as well as some lag in the need for increased services (e.g., education) the pressure for new revenues was not great during the first few years of the period.

During the past few years, however, the weight of the load on property taxes has been increasing, not presumably because of a conscious plan but because of the lack of a positive program to shift the burden sufficiently to other sources of revenue. Particularly in a situation where the extraordinary increase in demand for funds is in the area of elementary schools and high schools, which are largely locally financed, the almost certain way to get increased property taxes is to do little or nothing in the way of tax reform.

Three new sources of revenue were brought into use. The trade stimulator and slot machine complex was short-lived because they were declared unconstitutional. The first cigarette tax law (2 cents per pack) was passed in 1947 and the gross vehicles weight tax was brought into use in 1949.

Rate increases were made in several taxes already in use at the state level, namely the gasoline tax, the personal income tax, the corporation license tax. and liquor taxes.

Some progress has been made in easing the tax load in property through state (and federal) participation in financing schools, roads and welfare services.

Important progress has been made toward achieving a more equitable distribution of the tax load among property owners through the five-year land reclassification and property revaluation program effort being completed at the end of the period.

Calendar of Taxation Highlights in Montana

1889 - Montana achieved Statehood, Constitution ratified by the people. October 1, 1889. Article XII, Section 1. "The necessary revenue for the support and maintenance of the state shall be provided by the legislative assembly, which shall levy a umiform rate of assessment and taxation, and shall prescribe such regulations as shall secure a just valuation for taxation of all property except that especially provided for in this article. The legislative assembly may also impose a license tax, both upon persons and upon corporations doing business in the state.

Section 3. "All mines and mining claims, both placer and rock in place, containing or bearing gold, silver, copper, lead, coal or other valuable mineral deposits, after purchase thereof from the United States shall be taxed at the price paid the United States therefore, unless the surface ground, or some part thereof, of such mine or claim, is used for other than mining purposes, and has a separate and independent value for such other purposes, in which case said surface ground, or any part thereof so used for other than mining purposes, shall be taxed at its value of such other purposes, as provided by law; and all machinery used in mining, and all property and surface improvemtns upon or appurtenant to mines and mining claims which have a value separate and independent of such mines or mining claims and the annual net proceeds of all mines and mining claims shall be taxed as provided by law."

Section 15 of the original constitution (since amended) provides for a State Board of Equalization whose duty it was to adjust and equalize the valuation of the taxable property among the several counties of the state and (Section 16) to assess the franchise, roadway, roadbed, rails and rolling stock of all railraods operated in more than one county in the state, and apportion the assessed value of said railroads to the counties, cities. towns, townships and school districts in which the railroads are located in proportion to the number of miles of railway laid in these various units.

1891 - Second session of the legislative assembly (no laws were passed during the first session.)

Defines terms, among which are the terms "value" and "full cash value" which are defined as the "amount at which the property would be taken in payment of a just debt due from a solvent debtor."

Section 5 of Division one (Laws relating to revenue and appropriations) reads as follows: "All taxable property must be assessed at its full cash value. Land and improvements thereon must be separately assessed."

Imposed a poll tax of $2 on every male inhabitant over 21 and under 60 years of age (except paupers, insane persons, and Indians) the proceeds of which must be paid the county treasurer for the exclusive use of the poor fund of the county (the poll tax was in use during territorial days).

Levied an ad valorem tax of $2\frac{1}{2}$ mills on all the property of the state for state purposes for fiscal years 1891 and 1892.

Established license fees on various enterprises ranging from auctioneers to keepers of livery stables to owners of carriages for hire to permanently

established merchants.

1895 - A road tax of $3 (changed to $2 in 1899), every able-bodied man age 21 to 45 (brought over from territorial days).

Licenses required of additional enterprises such as bankers, theaters, billiard parlors, sellers of spiritous or malt liquors, brewers and distillers. peddlers, telephone, gas and electric light companies, doctors. lawyers, dentists, restaurants, toll ferries. laundries, horse-steam-electric rail road companies, architects, builders and contractors.

1897 - Inheritance Tax Law enacted March 4, 1897, (Amended 1921, graduated rates, determination of tax transferred to newly constituted Board of Equalization.)

License tax on insurance companies (state auditor to collect). For premiums of $5,000 or less, $25 license, and $20 for each $1,000 premium collected in excess of $5,000. Also a $300 filing fee for each foreign company and a fee of $5 for each agent in any insurance company.

1901 - License tax on sellers of oleomargarine, butterine, or imitation of cheese of 1 cent per pound. Also license fees for platform scales per hire ($10 per year) and $10 per month for sellers of cigarettes and cigarette paper.

1913 - Licensing of motor vehicles, 1/2 funds to county general road fund and 1/2 to State Highway Fund (Montana Highway Commission created). "For the purpose of raising revenue for the construction, maintenance, and improvements of public highways."

1917 - Corporation License Tax of one percent per annum of total net income.

Express Company license tax, (amended 1921 to four percent of gross earnings in state).

Montana Tax and License Commission created to study taxes and licenses in Montana.

1919 - An act to provide for the classification of property as a basis for imposition of taxes (reenacted in 1921) each class to have a "taxable" value at a specified percent of "full and true value" or "assessed value."

(Special session) Freight line company license tax five percent gross earnings of freight line (gross earnings treated as a measure of taxable value).

1921 - Act to provide for the classification of lands for assessment and taxation purposes (1919 law declared unconstitutional because it provided for a levy not to exceed one mill on real property to defray the expenses of the classification).

Legislative assembly submitted to the voters an amendment to the constitution providing for a State Board of Equalization consisting of three members to be appointed by the governor and approved by the senate, and setting forth powers and duties of said board. (Received approval of the voters in 1922.)

Enacted the following new license tax:

A gasoline distributors and dealers license tax, one cent per gallon gasoline and distillate.

Raised to two cents in 1923 but both 1921 and 1923 laws declared unconstitutional.

New law passed 1925 (two cents) and a referendum adopted 1926 (3 cents).

A coal miners and dealers license tax, five cents per ton.

A cement producers license tax, four cents per barrel, and cement plaster five cents per ton.

An oil producers license tax, one percent of gross value (raised to two percent in 1923).

A metalliferous mines license tax, 1½ percent on net proceeds (gold, silver, copper, lead, etc.)

Amended inheritance tax, graduated base; transferred determination to newly constituted Board of Equalization.

Transferred determination of corporation license tax from the office of the Treasury to the newly constituted State Board of Equalization.

Transferred the duty of assessing net proceeds of mines from county assessors to the State Board of Equalization.

1923 - Sleeping Car License Tax, 1½ percent of value of sleeping car co. within the state.

Motor Carrier Act. Regulation of motor vehicles carrying persons and/or property for hire (common carrier or contract), license fee of not to exceed $10 per vehicle to defray expenses of administration.

1924 - Metals Mines Tax initiative adopted by voters, schedule of rates from ¼ of 1 percent to 1 percent of gross production.

1926 - A 3 cent gasoline tax initiative passed by the voters.

1929 - Carbon Black License Tax 1/8 of 1 cent per pound.

Raised gasoline tax to 5 cents on gallon.

1931 - Motor Carrier Act - added $15 annual fee for application for permit.

1933 - (Regular Session)

Raised Corporation license tax to 2 percent of total net income, removed $2,500 deduction, and imposed a minimum tax of $5.

Personal income tax law passed, graduated rates 1 to 4 percent.

Amendment to remove doubt of constitutionality of income tax submitted to people in 1934 election (adopted).

The State Liquor Control Act of Montana, the establishment of a retail monopoly (through state package liquor stores) and regulation of the manufacture and sale of all liquor or alcoholic beverages manufactured, sold, or dispensed in the state. Beer could be dispersed by the drink only in establishments licensed by the Board.

The Montana Beer Act. In addition to annual license fees, for brewers, wholesalers, retailers, etc.. a tax of 50 cents per barrel on all beer sold in the state of Montana.

Chain store license tax, graduated by number of stores.

1933-34 - (Extraordinary Session)

Telegraph Company license tax, one percent of gross income intrastate.

Natural gas distributors license tax 3/8 of 1 cent per 1,000 cubic feet.

Electrical energy license tax, 5/8 of 1 percent on gross sales of electrical energy.

Beer license tax raised to $1 per barrel.

Contractors license tax. $1 minimum plus an additional amount based on gross receipts graduated from $15 to $400.

1935 - Motor Carrier fee of $\frac{1}{2}$ of 1 percent of gross operating revenue, minimum annual fee of $30 for classes A and B carriers and $15 for class C carriers (collected by Railroad Commission).

Telegraph License tax raised to 2 percent.

1937 - Corporation license tax set at 3 percent.

Moving picture theater license tax $1\frac{1}{4}$ percent of gross in excess of $3,000.

Telephone license tax $1\frac{1}{4}$ percent of gross income intrastate.

Change in Liquor Control Board, (to three members appointed by the Governor with advice and consent of Senate, authorization of licenses for sale of liquor by the drink, and imposition of a liquor excise tax at the rate of 50 cents per gallon.)

Transfer administration of Montana Beer Act from State Board of Equalization to Liquor Control Board (but Liquor Control Board not permitted to sell beer.)

1939 - Imposition of an excise tax of an 8 percent of retail selling price of liquor to be collected by the Board at time of sale and delivery and to be retained in a separate account, and deposited with the State Treasury for the general fund.

1941 - An assortment of license fees to go into the general fund, including the drivers license fees.

1945 - Freight Line Tax declared unconstitutional.

Slot Machine license fees.

1947 - Trade Stimulator Tax of 3 percent of value of punch board, etc.

Cigarette License Tax, 2 cents on each package of cigarettes sold in state.

1949 - First G. V. W. tax, temporary, good until 1951.

Gasoline Tax increased to 6 percent.

1950 - Slot Machine License Law declared unconstitutional.

By initiative measure, voters added additional 2 cents cigarette tax, veteran's bonus.

1951 - Vermiculite License Tax, 5 cents per ton of concentrate produced.

G.V.W. tax to be collected by the county treasurer for the State Highway Commission, tax ranging from $6 to $320 on motor trucks and tractors based on load weight--from $4.50 to $240 on tractors and semitrailers based on load weight.

1952 - Trade stimulator tax ruled unconstitutional.

Gasoline tax to 7 cents for two years only, (dropped back to 6 cents January 16, 1958.

1956 - Antidiversion Constitutional Amendment (highway taxes) adopted by voters in election of 1956, effective December 28, 1956.

1957 - Income tax rates revised, 1 to 5 percent.

State income tax withholding by employers.

Corporation license tax raised from 3 percent to 5 percent.

Insurance Company annual premium tax declared to be in lieu of all other taxes excepting taxes on real and tangible personal property. Two percent rate, raised to 2½ percent on temporary basis for several biennia.

A new license tax of 4 percent of retail selling price of liquor for distribution to counties, cities and towns.

Cigarette tax raised to 8 cents, Korean War Veterans included in program.

Provided for a Taxation and Education Commission to study tax structure and educational system ($35,000 appropriated).

Referendum to levy for university system submitted, also a bond issue for the university system.

1958 - Referendum November 1958, Excise tax on liquor raised to 16 percent; Governor's proclamation, November 28, 1958.

Gasoline tax dropped back to 6 cents.

1959 - Beer license tax increased from $1 to $1.50 per barrel.

Personal income tax rates amended, 1 to 7 percent.

Federal tax eliminated as a deduction for corporation license tax, rate reduced from 5 to $4\frac{1}{4}$ percent.

1963 - Reorganization of the State Treasury Fund Structure and Revision of State Fiscal Procudure for the appropriation, collection, spending and accounting of public and other monies.

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